103

ABUSIVE INSURANCE SALES AND MARKETING TECHNIQUES INVOLVING THE EARNED INCOME TAX CREDIT

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

MARCH 4, 1993

Serial 103–12

Printed for the use of the Committee on Ways and Means

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ABUSIVE INSURANCE SALES AND MARKETING TECHNIQUES INVOLVING THE EARNED INCOME TAX CREDIT

THURSDAY, MARCH 4, 1993

House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, D.C.

The subcommittee met, pursuant to call, at 1:20 p.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
THURSDAY, FEBRUARY 25, 1993

PRESS RELEASE #4
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1135 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-5522

THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN,
SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
ANNOUNCES A HEARING ON ABUSIVE INSURANCE SALES AND
MARKETING TECHNIQUES INVOLVING THE EARNED INCOME TAX CREDIT

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing on problems in the marketing of health insurance policies that are based upon the health insurance component of the earned income tax credit (EITC).

The hearing is scheduled for Thursday, March 4, 1993, beginning at 1:00 p.m., in the main Committee hearing room, 1100 Longworth House Office Building. The Subcommittee will receive testimony from the Center on Budget and Policy, the Internal Revenue Service (IRS), and individuals aware of misleading marketing schemes and practices.

The EITC was enacted in 1975 as a means of targeting tax relief to working low-income taxpayers with children, providing relief from the Social Security payroll tax for these taxpayers, and improving incentives to work. The Omnibus Reconciliation Act of 1990 (OBRA 1990) created a supplemental health insurance credit, as an addition to the basic EITC. This health insurance credit is available to low-income taxpayers who purchase qualifying health insurance for a child. The maximum health insurance credit amount for 1992 is $451.

The Subcommittee has identified cases where insurance salesmen have either implied that they work for, or with, the IRS or that their products are IRS-approved. These agents often convince employers to allow them to meet with their employees through the use of misleading brochures and threats of IRS penalties against the employers for noncompliance with the EITC laws. Further, employers have been told that such health insurance policies are "free" or available "at no cost" to their employees through a Government program. In reality, the premium payments for these insurance policies often exceed the earned income health insurance credit to which the taxpayer is entitled, and taxpayers may be talked into spending a part of their basic EITC for the policy. It also appears common for the salesmen to mislead the worker into believing that the only way to get the basic EITC is by purchasing health insurance.

In announcing the hearing, Chairman Pickle stated: "When Congress enacted the health component of the earned income tax credit, we did not envision that we would be opening up a whole new market for unscrupulous salesmen to take advantage of the already disadvantaged. It is unfortunate that the health insurance credit has been seen by some as an opportunity to prey upon the medical needs of the less fortunate, some of whom are eligible for Medicaid coverage. The Subcommittee will examine current practices in this regard and discuss what administrative or legislative reforms are needed."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Because the oral testimony at the hearing will be presented by invited witnesses only, interested parties are encouraged to provide written statements for the printed hearing record. Persons submitting written comments for the printed record of the hearing

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should submit six (6) copies by the close of business, Thursday, April 1, 1993, to Janice Mays, Chief Counsel and Staff Director, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.

2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.

3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.

4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms

*****

Chairman PICKLE. The subcommittee will please come to order.

I am going to have an opening statement and then Mr. Houghton and then we will proceed into hearing testimony from the witnesses.

Thank you all very much for joining us today. Today the subcommittee is meeting to look at the health component of earned income tax credit, the so-called EITC. The subcommittee has been investigating the use of deceptive marketing practices by unscrupulous insurance agents who have found a market made up of hard-working, low-income workers. These workers are oftentimes the most ill-equipped to see through these deceptive marketing techniques. Some insurance agents around the country have targeted this group of workers and have used numerous means to cajole them into purchasing questionable insurance which oftentimes does not even qualify for the health credit.

The EITC is a special credit for lower income workers with children. Three different credits make up the EITC: one, the basic credit; two, the health insurance credit; and three, the extra credit for a newborn child. The hearing today is primarily concerned with the health insurance credit.

The subcommittee discovered in its investigation that insurance agents were oftentimes misrepresenting themselves as either working for or endorsed by the Internal Revenue Service. Sometimes these salesmen and insurance companies have gone so far as to use IRS logos on their material to instill the belief that they were working for or sponsored by the IRS. The State of Arkansas has even had to issue a "cease-and-desist" order to stop sleazy marketing practices, and two IRS offices have had to issue press releases warning employers and employees about abusive practices. In addition, insurance policies were often marketed as part of a new Government program that was free to the taxpayer. However, the staff has uncovered many instances in which the premiums exceeded the amounts of the EITC health credit, thus costing the taxpayer money.

We are here today to look into this matter and see if we can put a stop to these marketing abuses. This subcommittee has had a longstanding interest in stamping out deceptive marketing techniques which imply approval by or affiliation with Government agencies. Last Congress we held a hearing which resulted in legislation passed by the Congress to curb these deceptive practices. These provisions were recently reintroduced in H.R. 22, the Federal Program Improvement Act of 1993. The methods employed here by some insurance agents and companies are just another example of why we need to pass H.R. 22 and stamp out this type of abuse.

If it is agreeable, after Members have given any opening statements they may have, I will ask Mr. George Miller of the subcommittee staff to read into the record a statement which outlines the results of their investigation into this matter. Then we will proceed to hear testimony from our four invited witnesses.

Mr. Houghton, do you have a statement?

Mr. HOUGHTON. Thank you, Mr. Chairman.

I am delighted to join you in focusing on the misleading gimmicks that the so-called insurance sales people use to exploit a variety of individuals who can ill afford to be victimized.

Congress created the EITC in 1975 as a way to reduce the tax burden on the working poor. Since 1976 there have been a variety of different modifications. In 1990, Congress added a health insurance feature to the basic structure. It provides a tax credit of up to $451 to defray the annual cost of health insurance premiums—$451 will not solve the whole health care problem for that group, but it is a start.

Today's hearing will concentrate on some rather strange insurance sales people who are using misleading tactics to ply their wares. Clearly the bottom line is people who are not wealthy, who are not knowledgeable, who are vulnerable, naive, good, decent people are being victimized. We want to stop it. We don't like it. It is distressing and that is the whole point of this hearing.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Brewster.

Mr. BREWSTER. I will forgo a statement to get on with the testimony.

Chairman PICKLE. Mr. Hancock.

Mr. HANCOCK. This is another example of the Federal Government attempting to control social policy in the tax legislation and leaving it up to the States to control the criminal policy. As long as we continue to do this, this type of legislation, attempting what you say is basically a good idea—no question about that—but there are people out there in the sector who are going to take advantage, or attempt to take advantage, of anything we do up here.

The control of this should be done by the States, but we made it available for the unscrupulous people to get into it. I will also say as a former insurance man there are a lot of good, dedicated people out there selling hospitalization insurance and life insurance.

There are always a few bad apples in every barrel, but I don't want this to reflect on the dedicated, conscientious agents out there that do have a sense of integrity in how they operate.

Thank you, Mr. Chairman.

Chairman PICKLE. I will ask Mr. Miller to read into the record your statement of your findings as a result of the investigation that you and other members of the staff have conducted in this area. Mr. Miller.

STATEMENT OF GEORGE MILLER, ASSISTANT COUNSEL, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS

Mr. MILLER. Thank you, Mr. Chairman.

Over the past 6 months, the Subcommittee on Oversight staff investigated problems of misrepresentation in the sales and marketing of health insurance policies to low-income taxpayers eligible to claim the earned income tax health insurance credit. The staff's investigation initially focused on a series of questionable marketing techniques, particularly health insurance sales involving the use of Government logos or sales implying Government affiliation or approval. During our investigation, the staff also discovered problems involving the types of health insurance policies that have been sold to EITC-eligible taxpayers, particularly policies that did not qualify as health insurance for purposes of the health insurance credit.

The earned income tax credit is a credit against tax for low-income working taxpayers with children. Taxpayers who, one, have a job; earn less than $22,370 per year; and have a child living with them for more than 6 months are eligible to claim the basic earned income tax credit. The maximum basic credit for 1992 is $1,384 which is available to taxpayers in the $7,500 to $11,850 income range.

Taxpayers can claim the credit in one of two ways. First, they will have the option of claiming the credit in a lump sum by filing a tax return—even if no tax is due—and attaching schedule EIC.

Second, they can have the credit "advanced" throughout the year and get a portion of the credit—for example, one-twelfth per month—in each of their paychecks. To get advances of the credit, they must fill out and file with their employer a form W–5.

In the Omnibus Budget Reconciliation Act of 1990, the Congress amended the EITC, adding a health insurance credit to the basic credit. The health insurance credit is available to EITC eligible taxpayers who have purchased health insurance that includes coverage for a child. Like the basic credit, the health insurance credit varies with taxpayer income. The maximum health insurance credit for 1992 is $451.

The health insurance credit cannot be advanced to a taxpayer throughout the year. It is only available at year end when the taxpayer files a return. To claim the health insurance credit, taxpayers must, on their returns, simply report on schedule EIC the amount that they had paid for health insurance covering at least one child.

The health insurance credit was first effective in tax year 1991. In that year, the basic EITC credit was claimed on approximately 13.9 million returns. Approximately 2.9 million taxpayers claimed health insurance credits totaling $496 million.

Indemnity-type health insurance plans guarantee payment of a specified amount for each day or week that are not considered health insurance. Accordingly, payments made to purchase indemnity-type health insurance polices are not eligible for the health insurance credit.

In conducting its investigation, the subcommittee made contacts, in speaking with Internal Revenue Service personnel, insurance companies, insurance agents, office of State insurance commissioners, employers, and interest groups representing low-income taxpayers. The subcommittee staff provides the following:

Insurance sales agents have represented themselves as affiliated with or approved by the Internal Revenue Service in order to induce sales of insurance policies to low-income taxpayers eligible to claim the health insurance credit.

A company called the American Employees Benefit Group has been generating insurance sales leads using business cards which identified the salespersons as "IRS Compliance, EIC Implementers."

Claiming either to represent the IRS or to have a "working relationship" with the IRS, American Employees Benefit Group salespersons wore official looking, photo ID badges on their lapels identifying them as affiliated with the IRS.

Telling employers that they were going to "make them look good with their employees," American Employees Benefit Group sales staff sought access to employer files. They threatened employers with IRS penalties or retribution if they were not given access to the records.

In Arkansas, the State insurance commissioner entered a cease-and-desist order prohibiting the American Employees Business Group from all solicitations and sales of insurance or otherwise transacting the business of insurance in the State. The commissioner determined that, among other things, the business was transacting the business of insurance from a mail drop and falsely representing themselves as having a connection with the IRS.

In both Alabama and Arkansas, the Internal Revenue Service issued news releases alerting taxpayers to beware of insurance companies claiming connection with the IRS.

In Texas, another company, called ATAX Associates, marketed health insurance policies targeted at EITC-eligible employees. ATAX issued a flyer announcing "New! U.S. Government Program Offers Free Health Insurance and Cash!" Under the name ATAX Associates appear the words "Internal Revenue Service—EIC Compliance."

The ATAX flyer also makes use of the IRS logo which appears on official IRS informational documents pertaining to the EITC, such as IRS publication 596. Use of this logo on the ATAX flyer, as well as the use of the name of the Internal Revenue Service, created the impression that ATAX is affiliated with or approved by the IRS.

ATAX told employers that they could charge employees between $2 to $5 for making advances of the basic EITC and for making payroll deductions of these advances to pay for insurance premiums.

Secondly, insurance sales agents have been able to exploit confusion between the basic credit and the health insurance credit to induce sales of health insurance.

Once they had access to employees, the American Employees Benefit Group used high-pressure sales techniques and misrepresentations to induce employees to buy health insurance, using advances of their basic EITC to pay for the policies. The company representatives insinuated, for example, that an employee had to purchase insurance in order to receive advances of the basic credit.

The claim that health insurance could be purchased for "free" was the most common complaint the subcommittee received regarding misrepresentations about the health insurance credit.

Nursing home patients in Waco, Tex., complained that an insurance salesman from Commonwealth incorrectly told them he could offer them health insurance at no cost to them.

The American Employees Benefit Group persuaded employees to receive the full amount of their basic EITC amounts in their paychecks and to use the full amount of the basic credit—up to $1,384—to buy health insurance.

The maximum allowable health insurance credit is only $451. Accordingly, when the taxpayers claimed the health insurance credit on their tax returns, some realized for the first time that they had

spent more for health insurance than the amount of the health insurance credit for which they were eligible.

A flyer used by ATAX in the marketing of a policy for Commonwealth National Life Insurance Co. shows what happens to the take-home pay of an employee who uses weekly advances of the basic EITC to purchase health insurance—the employee increases his weekly take-home pay from $187.19 to $197.69. What the flyer doesn't show is that the weekly premium cost of $14.50 equals a yearly cost of $754. This is $303 more than the maximum health insurance credit.

Third, low-income taxpayers have purchased indemnity-type health insurance policies in the belief that payments for such policies were eligible for the health insurance credit.

Low-income taxpayers who purchased an indemnity policy would not be eligible to claim the health insurance credit. Indemnity-type policies guarantee a specified payment for each day the insured is in the hospital. Because such guaranteed payments do not relate to the IRS ruling, as well as IRS regulations, indemnity policies are not considered health insurance. Accordingly, payments for indemnity-type policies are not eligible for the health insurance credit.

A Kansas company, Pyramid Life, marketed an indemnity-type policy for EITC-eligible taxpayers.

The policy of Commonwealth National marketed by ATAX to EITC-eligible taxpayers was also an indemnity policy.

Agents for Capitol American marketed an indemnity plan purportedly qualifying for the health insurance credit.

Most of the 13 insurance companies contacted by the subcommittee staff were not forthcoming in response to inquiries about sales of indemnity-type policies to EITC-eligible taxpayers. The companies stated that they had no control over the activities of independent agents.

Sales of indemnity-type policies to EITC-eligible taxpayers appear to have been widespread. In fact, insurance companies consistently charged that their competitors' agents were selling indemnity-type policies to EITC-eligible taxpayers, with assurances that the policies qualified for the health insurance credit.

It also appears that some insurance companies may be attempting to circumvent the prohibition against indemnity-type policies by changing policy language to avoid the appearance of an indemnity policy.

Fourth, low-income taxpayers have purchased policies of questionable value in the belief that payments for such policies were eligible for the health insurance credit.

Some types of policies sold to EITC-eligible taxpayers may be of questionable value. Among others, it appears that cancer, dread disease, heart/stroke, and cancer/heart/stroke policies were sold to cover the children of low-income taxpayers.

In all likelihood, many EITC-eligible taxpayers also eligible for Medicaid are being sold health insurance policies even though they already may have more comprehensive coverage under Medicaid.

Fifth, the tax consequences of purchasing a nonqualifying health insurance policy fall on the low-income, EITC-eligible taxpayer.

Under the Internal Revenue Code, there is no relief for taxpayers who have purchased a nonqualifying health insurance policy in the belief that the policy qualifies for the health insurance credit.

In addition, the health insurance credit creates opportunities for noncompliance that are not easy for the IRS to monitor.

In conclusion, since the health insurance credit presents serious problems in administration and compliance, the subcommittee may wish to consider the following:

First, with regard to the use by insurance salesmen of promotional materials with language or logos implying a connection with, or approval of, the IRS, the Congress should enact the "Federal Program Improvement Act of 1993," with an amendment to include criminal sanctions, up to a $1,000 fine and a 1-year imprisonment, similar to the protections available to the Department of Housing and Urban Development, and the Federal Bureau of Investigation.

Second, the tax laws may need to be amended to clarify that employers are prohibited from charging fees to EITC-eligible taxpayers who elect to receive advances of their basic EITC.

Third, if the health insurance credit is not repealed, it is essential that the IRS become more closely involved in monitoring the sales and marketing of health insurance policies paid for in part or in full by the health insurance credit.

Fourth, if the health insurance credit is not repealed, the U.S. General Accounting Office should be required to conduct a study of tax returns filed for tax year 1992 on which the health insurance credit had been claimed and a description of continuing insurance sales practices about which the IRS and public should be aware.

That ends my statement. Thank you.

Chairman PICKLE. I thank you, Mr. Miller, for your statement and for the suggestions that we should consider either repealing the program or taking steps to curb this abuse.

I am glad to have all the statement on the record. I thank you for your testimony and for your good work.

[The prepared statement and attachments follow:]

STATEMENT OF GEORGE MILLER, ASSISTANT COUNSEL, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS

INTRODUCTION

Over the past six months, the Subcommittee on Oversight staff investigated problems of misrepresentation in the sales and marketing of health insurance policies to low-income taxpayers eligible to claim the earned income tax health insurance credit. The staff's investigation initially focused on a series of questionable marketing techniques, particularly health insurance sales involving the use of Government logos or sales implying Government affiliation or approval. During our investigation, the staff also discovered problems involving the types of health insurance policies that have been sold to EITC-eligible taxpayers, particularly policies that did not qualify as health insurance for purposes of the health insurance credit.

The schemes we identified operated relatively simply once individuals had agreed to buy health insurance policies. At taxpayers' requests, their employers made payroll advances of the basic earned income tax credit, which were then deducted from employees' paychecks and paid over to an insurance company as premium payments for the employees' health insurance policies. Some taxpayers were led to believe that the policies qualified for the health insurance credit, and that at the end of the year they would be able to recover the costs of these policies through the health insurance credit. In many instances this did not turn out to be true.

The Subcommittee has had a long-standing interest in the use of misleading mailings and deceptive representations by companies that imply a connection with the Internal Revenue Service, the Social Security Administration, and other Federal agencies. Among other things, in 1992, the Subcommittee developed reform measures to prohibit the misuse of the Department of the Treasury names, symbols, or emblems. These provisions are pending before the Committee in H.R. 22, the "Federal Program Improvement Act of 1993."

BACKGROUND

The Earned Income Tax Credit (EITC) is a credit against tax for low-income, working taxpayers with children. The basic EITC was enacted in 1975. Under section 32 of the Internal Revenue Code, taxpayers who (1) have a job, (2) earn less than $22,370 per year and (3) have a child living with them for more than six months, are eligible to claim the basic earned income tax credit. The maximum basic credit for 1992 is $1,384, which is available to taxpayers in the $7,500-$11,850 income range.

Taxpayers can claim the credit in one of two ways. First, they have the option of claiming the credit in a lump sum by filing a tax return (even if no tax is due) and attaching Schedule EIC. Second, they can have the credit "advanced" throughout the year and get a portion of the credit (e.g., one twelfth per month) in each of their paychecks. To get advances of the credit, they must fill out and file with their employer a Form W-5 (Earned Income Credit Advance Payment Certificate).

In the Omnibus Budget Reconciliation Act of 1990, the Congress amended the EITC, adding a health insurance credit to the basic credit. The health insurance credit is available to EITC-eligible taxpayers who have purchased health insurance that includes coverage for a child. Like the basic credit, the health insurance credit varies with taxpayer income. The maximum health insurance credit for 1992 is $451. Unlike the basic credit, the health insurance credit cannot be advanced to a taxpayer throughout the year. It is only available at year-end when the taxpayer files a return. To claim the health insurance credit, taxpayers must, on their returns, simply report on Schedule EIC the amount that they had paid for health insurance covering at least one child. No further information about the health insurance policy is reported to the Internal Revenue Service.

The health insurance credit was first effective in tax year 1991. In that year, the basic EITC credit was claimed on approximately 13.9 million returns. Approximately 2.9 million taxpayers claimed health insurance credits totaling $496 million.

Under sections 32 and 213 of the Internal Revenue Code, indemnity-type health insurance plans (i.e., policies that guarantee payment of a specified amount for each day or week that the insured is hospitalized) are not considered health insurance. Accordingly, payments made to purchase indemnity-type health insurance policies are not eligible for the health insurance credit.

Internal Revenue Service Publication 596 sets forth guidelines on the earned income credit. When the publication was issued for tax year 1991, there were no references to indemnity policies. The 1992 version of this publication, however, specifically states that "policies that pay you a guaranteed amount each day or week for a stated number of weeks if you are hospitalized for sickness or injury" do not qualify for the health insurance credit.

The Administration's comprehensive economic plan will contain a proposal to expand and simplify the EITC. It is expected that the Administration's final proposal will contain a provision to repeal the health insurance credit, because the health insurance credit is a source of complexity that hinders the effectiveness of the EITC.

RESULTS OF INVESTIGATION

In conducting its investigation, the Subcommittee made contacts in the States of Alabama, Arkansas, Arizona, Florida, Georgia, Louisiana, North Carolina, Ohio, South Carolina and Tennessee, speaking with Internal Revenue Service personnel, insurance companies, insurance agents, offices of State insurance commissioners, employers, and interest groups representing low-income taxpayers. As a result of these efforts, the Subcommittee staff provides the following:

1. Insurance sales agents have represented themselves as affiliated with or approved by the Internal Revenue Service (IRS) in order to induce sales of insurance policies to low-income taxpayers eligible to claim the health insurance credit.

- A company called the American Employees Benefit Group has been generating insurance sales leads using business cards which identified the salespersons as "IRS Compliance, EIC Implementers." (Attachment 1)

- Claiming either to represent the IRS or to have a "working relationship" with the IRS, American Employees Benefit Group salespersons wore official-looking, photo-ID badges on their lapels identifying them as affiliated with the IRS.

- Telling employers that they were going to "make them look good with their employees," American Employees Benefit Group sales staff sought access to employer files. Targeting small, low-wage businesses, they were seeking to identify employees eligible for the EITC. They threatened employers with IRS penalties or retribution if they were not given access to the records.

- It appears that the American Employees Benefits Group may have operated in five states: Alabama, Tennessee, Mississippi, Kentucky, and Arkansas.

- In Arkansas, the State Insurance Commissioner entered a "cease and desist order," prohibiting the company from all solicitations and sales of insurance or otherwise transacting the business of insurance in the State. The Commissioner determined that, among other things, the business was transacting the business of insurance from a mail drop and falsely representing themselves as having a connection with the IRS. (Attachment 2)

- In both Alabama and Arkansas, the Internal Revenue Service issued news releases alerting taxpayers to beware of insurance companies claiming connection with the IRS. (Attachments 3 and 4)

- In Texas, another company, called ATAX Associates, marketed health insurance policies targeted at EITC-eligible employees. ATAX issued a flyer announcing, "New! U.S. Government Program Offers 'Free' Health Insurance and Cash!" Under the name "ATAX Associates" appear the words "Internal Revenue Service - EIC Compliance." (Attachment 5)

- The ATAX flyer also makes use of the IRS logo which appears on official IRS informational documents pertaining to the EITC, such as IRS Publication 596. (Attachment 6) Use of this logo on the ATAX flyer, as well as the use of the name of the Internal Revenue Service, created the impression that ATAX is affiliated with or approved by the IRS.

- The same official IRS logo also appears on the Commonwealth National Life Insurance Company health insurance plans marketed by ATAX. (Attachment 7)

- ATAX told employers that they could charge employees between $2 to $5 for making advances of the basic EITC and for making payroll deductions of these advances to pay for insurance premiums. (Attachment 8)

2. Insurance sales agents have been able to exploit confusion between the basic credit and the health insurance credit to induce sales of health insurance.

- Once they had access to employees, the American Employees Benefit Group used high-pressure sales techniques and misrepresentations to induce employees to buy health insurance, using advances of their basic EITC to pay for the policies. The company representatives insinuated, for example, that an employee had to purchase insurance in order to receive advances of the basic credit. If no insurance was purchased, there would be no basic credit available.

- The claim that health insurance could be purchased for "free" was the most common complaint the Subcommittee received regarding misrepresentations about the health insurance credit. Nursing home patients in Waco, Texas, complained that an insurance salesman from Commonwealth incorrectly told them he could offer them health insurance at no cost to them, and would be paid for by the nursing home and/or Federal Government. (Attachments 9 and 10) ATAX also told employers and employees that health insurance purchased from it was "free."

- The American Employees Benefit Group persuaded employees to receive the full amount of their basic EITC amounts in their paychecks and to use the full amount of the basic credit (up to $1,384) to buy health insurance. The maximum allowable health insurance credit is only $451. Accordingly, when the taxpayers claimed the health insurance credit on their tax returns, some realized for the first time that they had spent more for health insurance than the amount of the health insurance credit for which they were eligible.

- A flyer used by ATAX in the marketing of a policy for Commonwealth National Life Insurance Company illustrates how a taxpayer could be persuaded to spend more than the amount of the health insurance credit. This flyer shows what happens to the take-home pay of an employee who uses weekly advances of the basic EITC to purchase health insurance -- the employee increases his weekly take-home pay from $187.19 to $197.69. What the flyer doesn't show is that the weekly premium cost of $14.50 equals a yearly cost of $754. This is $303 more than the maximum health insurance credit. (Attachment 11)

- In New Orleans, the IRS received several inquiries from taxpayers who had been given the impression that they had to buy health insurance in order to get advances of the basic earned income health credit.

- Complaints have been received by the Subcommittee about a brochure issued by the National Association of Health Underwriters and distributed by Kanawha Life Insurance. The brochure provides straightforward information about "cash for families who buy health insurance" and explains what the health insurance credit is, tells who can get it, states that the credit can be used for group health insurance, and sets forth the maximum health insurance credit amount. The brochure then goes on to explain that there are "Other Cash Benefits" -- the earned income credit -- which can give you up to $1,235 in 1991. The brochure then asks the question "How do I get it?" and answers the question by stating that the taxpayer must file a tax return showing how much has been paid for health insurance during the past year. The juxtaposition of information about the basic credit and the health insurance credit might well mislead a low-income taxpayer into believing that the basic credit is available only if health insurance is purchased. (Attachments 12 & 13)

3. <u>Low-income taxpayers have purchased indemnity-type health insurance policies in the belief that payments for such policies were eligible for the health insurance credit</u>.

- Low-income taxpayers who purchased an indemnity policy would not be eligible to claim the health insurance credit. Indemnity-type policies guarantee a specified payment for each day the insured is in the hospital. Because such guaranteed payments do not relate to the insured's actual medical expenses, under a long-standing IRS ruling, as well as IRS regulations, indemnity policies are not considered health insurance. Accordingly, payments for indemnity-type policies are not eligible for the health insurance credit.

- A Kansas company, Pyramid Life, promoted "products available for purchase using the Health Insurance Tax Credit and the Earned Income Credit." Pyramid Life stated that it marketed an indemnity-type policy for EITC-eligible taxpayers. (Attachment 14)

- The policy of Commonwealth National marketed by ATAX to EITC-eligible taxpayers was an indemnity policy. (Attachment 15)

- Agents for Capitol American marketed an indemnity plan purportedly qualifying for the health insurance credit. (Attachment 16)

- Most of the 13 insurance companies contacted by the Subcommittee staff were not forthcoming in response to inquiries about sales of indemnity-type policies to EITC-eligible taxpayers. None admitted having targeted EITC-eligible taxpayers for sales of those policies. They all indicated, however, that it was indeed possible that one of their independent sales agents may have stated that an indemnity policy was eligible for the health insurance credit in order to promote sales. The companies stated that they had no control over the activities of independent agents.

- Sales of indemnity-type policies to EITC-eligible taxpayers appear to have been widespread. In fact, insurance companies consistently charged that their competitors' agents were selling indemnity-type policies to EITC-eligible taxpayers, with assurances that the policies qualified for the health insurance credit.

- In contrast, one company, AFLAC (which markets indemnity-type policies) issued instructions to its agents that none of its policies qualified for the health insurance credit.

- It also appears that some insurance companies may be attempting to circumvent the prohibition against indemnity-type policies, by changing policy language to avoid the appearance of an indemnity policy. Colonial

Life and Accident Insurance Company marketed a policy that paid actual charges incurred "up to" a specified ceiling (e.g., $50/day for hospital confinement). (Attachment 17) Because it does not guarantee payment of a "specified amount," such a policy may not fall within the strict definition of an indemnity policy. Nonetheless, when the ceiling is substantially below actual charges (e.g. $50 for each day of hospitalization), the policy is, for all practical purposes, indistinguishable from an indemnity-type policy.

4. Low-income taxpayers have purchased policies of questionable value in the belief that payments for such policies were eligible for the health insurance credit.

- o Some types of policies sold to EITC-eligible taxpayers may be of questionable value. Among others, it appears that cancer, dread disease, heart/stroke, and cancer/heart/stroke policies were sold to cover the children of low-income taxpayers.

- o In all likelihood, many EITC-eligible taxpayers also eligible for Medicaid are being sold health policies even though they already may have more comprehensive coverage under Medicaid. Under Medicaid primary payer rules, if the policy ever did pay benefits to the insured, those policy payments would have to be reimbursed to Medicaid.

5. The tax consequences of purchasing a non-qualifying health insurance policy fall on the low-income, EITC-eligible taxpayer.

- o Under the Internal Revenue Code, there is no relief for taxpayers who have purchased a non-qualifying health insurance policy in the belief that the policy qualifies for the health insurance credit. A salesman who has assured taxpayers that a plan qualifies for the health insurance credit suffers no consequences if the plan does not qualify.

- o In addition, the health insurance credit creates opportunities for non-compliance that are not easy for the IRS to monitor. For tax year 1991, taxpayers claiming the health insurance credit were required to name the insurance company from which they had purchased health insurance. For tax year 1992, this information is not required; the taxpayer must simply list the amounts paid for health insurance. Without examining the terms of individual policies, the IRS is incapable of knowing whether a policy for which the health insurance credit is claimed qualifies for the credit.

CONCLUSIONS

Since the health insurance credit presents serious problems in administration and compliance, the Subcommittee may wish to consider the following:

First, with regard to the use by insurance salesmen of promotional materials with language or logos implying a connection with, or approval of, the IRS, the Congress should enact the provisions pertaining to misleading mailings contained in H.R. 22, the "Federal Program Improvement Act of 1993," with an amendment to include criminal sanctions (up to a $1,000 fine and a one-year imprisonment) similar to the protections available, under present law, to the Federal Deposit Insurance Corporation, the Department of Housing and Urban Development, and the Federal Bureau of Investigation.

Second, the tax laws may need to be amended to clarify that employers are prohibited from charging fees to EITC-eligible taxpayers who elect to receive advances of their basic EITC.

Third, if the health insurance credit is not repealed, it is essential that the IRS become more closely involved in monitoring the sales and marketing of health insurance policies paid for in part (or in full) by the health insurance credit. The IRS should be required to: (1) establish written standards and guidelines for health insurance policies that qualify for the credit and (2) establish an employer and EITC-taxpayer "awareness campaign" to educate the public about the rules applicable to the health insurance credit and marketing schemes and practices that are inappropriate, and (3) aggressively monitor health insurance policies (and related promotional marketing materials) which are intended to be marketed to low-income taxpayers as qualifying for the health insurance credit, including efforts to circumvent the indemnity policy prohibition.

Fourth, if the health insurance credit is not repealed, the U.S. General Accounting Office should be required to conduct a study of tax returns filed for tax year 1992 on which the health insurance credit had been claimed, to include: an analysis of the extent to which taxpayers have claimed the credit for payments for non-qualifying health insurance policies; the names of companies that sold non-qualifying policies to EITC taxpayers; and a description of continuing insurance sales practices about which the IRS and public should be aware.

* * * *

ATTACHMENT 1

American Employees Benefit Group

IRS Compliance EIC Implementers

Rickey G. Trotter
Program Coordinator
(501) 821-5840

12111 W Markham #14-411
Little Rock, AR 72211
FAX (501) 821-3809

American Employees Benefit Group

IRS Compliance EIC Implementers

Gene Levengood
President
(501) 821-5840

12111 W Markham #14-413
Little Rock, AR 72211
FAX (501) 821-3809

American Employees Benefit Group

IRS Compliance EIC Implementers

Brenda Nixon
Benefit Enroller
(501) 821-5840

12111 W Markham #14-394
Little Rock, AR 72211

ATTACHMENT 2

BEFORE THE INSURANCE COMMISSIONER

FOR THE STATE OF ARKANSAS

IN THE MATTER OF
AMERICAN EMPLOYEES BENEFIT GROUP;
BRENDA NIXON; AND RICKEY C. TROTTER

A.I.D. NO. 92-53

CEASE AND DESIST ORDER

NOW, on this the 20'th day of July, 1992, the matter of the activities of American Employees Benefit Group, Brenda Nixon, Rickey C. Trotter, and other agents, servants, and employees of same, are taken into consideration, and from the facts, matters and other information before him, the Insurance Commissioner does hereby FIND AS FOLLOWS:

1. That the Commissioner has jurisdiction over the parties and subject matter involved herein.

2. That Respondents are apparently operating and transacting the business of insurance from a mail drop located in the Rock Creek Square, 12111 West Markham, Little Rock, Arkansas.

3. That Respondents are not licensed as either resident or non-resident insurance agents or brokers nor are Respondents authorized to do the business of insurance in the State of Arkansas.

4. That Respondents have made presentations to Arkansas-based employers which purport to explain the impact of 26 U.S.C. §32 and the earned income credit program afforded to certain classes of lower wage employees thereby, and have, reportedly, sold and continue to sell disability insurance coverage to employees of such employers. In order to assist in the sales of insurance as aforesaid the Respondents are falsely representing themselves as having a connection with the United States Internal Revenue Service.

5. That Respondents activities in this State constitute the transaction of insurance business as defined in Ark. Code Ann. §23-60-102.

6. That Respondents' unlicensed activities are in violation of Ark. Code Ann. §§23-63-201, 23-64-202, 23-64-211, 23-64-212, 23-65-310, and Rule and Regulation 11 §15.K.

7. That Respondent's activities, if true, endanger the public peace, health, safety and welfare of the citizens of the State of Arkansas and require emergency action.

THEREFORE, pursuant to the provisions of Ark. Code Ann. §23-65-105, Respondents and their agents, servants and employees are hereby ordered to immediately cease and desist all solicitations and sales of insurance or otherwise transacting the business of insurance in the State of Arkansas. Respondents are hereby advised that within twenty (20) days of their receipt of this Order, they may request a hearing before the Insurance Commissioner or his designee to show cause why such acts or practices are not in violation of the Arkansas Insurance Code, and to show cause why the Commissioner should modify or set aside this Order.

IT IS SO ORDERED this 20th day of ~~May~~ July, 1992.

LEE DOUGLASS
INSURANCE COMMISSIONER
STATE OF ARKANSAS

ATTACHMENT 3

News Release

Department of the Treasury
Internal Revenue Service
District Office
Birmingham, AL 35233, Tel. (205) 731-1260

For Release: IMMEDIATELY

July 27, 1992

92-107

Beware Of Insurance Companies Claiming Connection With IRS

A health insurance company that claims to have a special working relationshi with the Internal Revenue Service should be approached with caution, warns Philip J. Sullivan, District Director of IRS in Alabama.

This has been the case in Alabama recently where business owners have been approached by health insurance salespersons who claim their company works with the IRS to provide health insurance to workers through the Advance Earned Income Credit (EIC).

"No such relationship exists," Sullivan said. "It is important for taxpayers to know that the federal government does not endorse nor sponsor any particular health insurance program." The EIC is provided to supplement the employee's earnings throughout the year and to help them meet the cost of ongoing necessities Federal tax credits, like the EIC, mean extra cash for taxpayers who qualify, but are not earmarked for a specific purpose like health insurance premiums.

To qualify for the EIC, families must have a child living with them for more than six months during the year and have earned less than $22,370 in 1992. If eligible, employees may receive their EIC payment as a refund when they file their federal tax return, or they may elect to receive "Advance EIC" payments. This payment is added to their regular paycheck throughout the year.

To start receiving Advance EIC, employees should complete a Form W-5 and return it to their employer. They should be certain that they are qualified to receive the credit because those who aren't must repay the Advance EIC when they file their 1992 tax return.

For more information on Advance EIC, call the IRS toll-free at 1-800-829-1040

X X X

News Release

ATTACHMENT 4

Internal Revenue Service
District Office
Little Rock, Arkansas 72201

For Release:

Immediately
LR-92-65

Phil Beasley, public affairs officer
Media telephone number: 324-5340

July 28, 1992

IRS Warns Arkansans to Watch Out for Scams

Little Rock -- Arkansans approached by people claiming to be Internal Revenue Service agents should be careful. It could be a scam.

Each year, people posing as IRS employees swindle unsuspecting taxpayers out of thousands of dollars by gaining access to confidential records through illegal schemes. Arkansas' elderly, minorities and small businesses are often the targets of these impostors.

"All IRS employees carry identification and are required to show it when visiting homes or offices on the job," Lee Monks, district director of the Little Rock district said. "Arkansans should refuse to talk with anyone saying they're from the IRS until they have seen their credentials."

Recently, an insurance company led small Arkansas business owners to believe it had a working relationship with the IRS. Several business owners reported that salesmen wore "official looking" badges, used high pressure sales tactics, and occasionally threatened them with IRS penalties.

Generally, if an IRS employee contacts individual or business taxpayers, he or she will have record of that person's Social Security Number (SSN) or the businesses'

Employment Identification Number (EIN). People can double check the validity of the IRS employee by asking him or her to read the SSN or EIN back to them.

Arkansans who suspect they are being victimized by an IRS impersonator should immediately call the IRS Inspection Hot-Line toll-free at 1-800-366-4484.

X X X

ATTACHMENT 5

New!!

U.S. GOVERNMENT PROGRAM OFFERS "FREE" HEALTH INSURANCE AND CASH!

ELIGIBILITY

- One or more dependent children
- Family income average under
  $10.75 per hour
  $1864.16 per month
  $22,370 per year

Department of the Treasury
Internal Revenue Service

EARNED
INCOME
CREDIT

SECTIONS 32 and 3507
INTERNAL REVENUE CODE
[illegible]

7 ADVANTAGES TO EMPLOYER AND EMPLOYEE

1. NO COST TO EMPLOYER

2. INCREASES INCOME AND REDUCES EXPENSES

This new government program is easily administered with a payroll deduction from employer's withholding bank account.

3. IMPROVES COMPANY MORALE

There is no dispute that a happy employee is a better producer. Turnover may be markedly decreased.

4. THE BOSS BECOMES AN INSTANT HERO

When the company initiates this program, it becomes an unexpected bonus, which is more greatly appreciated.
Caution: the employer should avoid being forced by IRS penalties to provide it to his employees.

5. SUPPLEMENTAL HEALTH INSURANCE PAID BY UNCLE SAM

Employee would have difficulty locating health insurance in this premium range.
Employer makes it easy for employee to protect his family.

6. NO COST TO QUALIFIED EMPLOYEES

nployee's children and/or their parents may receive free benefits up to $100 per day hospital confinement; $400 outpatient nefits; $400 accidental injury benefits; cancer and/or 26 dread diseases protection. It is ATAX Agents' responsibility to custom- every account, selecting maximum benefits for each employee. Also, under almost all circumstances, the employee receives cash rebate after filing the income tax return at the end of the year.

7. SERVICES OF ATAX AGENTS

ry few insurance companies and agents offer the small individual policies that qualify for this government program. Premiums d commissions are low, often as little as 10% of typical group insurance plans. ATAX agents specialize in representing qualified urance carriers, and in accumulating data for government entitlements as set forth by related IRS code. Your employees are qualified, enrolled and serviced by licensed ATAX agents.

ATAX
ASSOCIATES

INTERNAL REVENUE SERVICE · EIC COMPLIANCE

Emerson Swalwell-Licensed Insurance Agent
5327 No. Central Expressway, Suite 315
Dallas, Texas 75205
(214) 522-8000 • (Fax) 522-8805

ATTACHMENT 6

Department of the Treasury
Internal Revenue Service
Catalog Number 15173A

Publication 596

Earned Income Credit

For use in preparing
1992 Returns

Did You Know?

The Government May Owe You Money!!

In 1992, if You...

- **Had a Job,**
- **Earned Less Than $22,370, and**
- **Had a Child Who Lived with You...**

You may qualify for the Earned Income Credit, and <u>You Should Read This Publication</u>.

Inside, you will learn about the earned income credit, how you can qualify, and when and how you can get this credit.

The earned income credit is made up of 3 credits. They are:

- The basic credit
- The health insurance credit
- The extra credit for a child born in 1992

Please read this publication to find out if the government owes YOU money and file your return today!

ATTACHMENT 7

COMMONWEALTH NATIONAL LIFE

INSURANCE COMPANY

presents:

THE FAMILY ASSISTANCE PLAN

An opportunity for employers to take advantage of government tax credits to provide valuable benefits for employees and their families.

ATTACHMENT 8

ATAX ASSOCIATES

NO COST TO THE BOSS

Yes, the plan is truly free. Even U.S. taxpayers do not pay for it. The cost is simply a reduction in income taxes, since insurance policies are paid out of tax withholding accounts. (Line 15 of IRS Form 941)

NEW TAX LAW IN 1991: COMPULSORY, NOT OPTIONAL

The credit for health insurance came into effect in 1991. Failure to comply can result in "a penalty equal to the amount of the Advance EIC Payments not made."

EASY TO ADMINISTER

ATAX makes it simple for the employer. We analyze the surveys for eligible employees; calculate maximum benefits; check W-5 forms; complete insurance applications; obtain signed release for employer; enroll employees in person, by telephone or mail; obtain signed payroll deduction cards; handle inquiries, and claims. The employer may charge eligible employees from $2 to $5 per month to offset payroll deduction costs. The insurance carrier issues individual policies and bills the employer monthly.

CASH INSURANCE BENEFITS: NO DEDUCTIBLES AND PROTECTION FOR NON HOSPITAL CLAIMS

Our family insurance policy is supplemental to any group plan and pays cash direct to the employee. Virtually all applications are accepted and no physical exam is required. Protection features up to $400 for accidents and up to $400 for sickness medical expenses without hospital stay. Cafeteria Plan Section 125, COBRA, co-insurance, deductibles, and coordinations do not apply. The insurance company is rated "excellent" by Best's and ranks 108 among thousands of American health insurance companies.

FOUR BIG REASONS WHY YOUR COMPANY SHOULD INITIATE THIS PLAN IMMEDIATELY

1. The Boss becomes an instant hero. A new unexpected employee benefit!

2. You avoid possible negative PR if employees have to force the company to comply with IRS regulations. You avoid IRS penalties imposed by disgruntled employees.

3. Helps you hire and retain good employees.

4. You use it or lose it. You cannot claim benefits retroactively.

FREE YEAR END TAX RETURNS

ATAX has made arrangements with a non profit organization that completes and files 1040's for low income families at no charge. Applications for unused Earned Income Credit is done at that time.

WHO IS "ATAX ASSOCIATES"

Our name means "no tax." Our principals are licensed insurance agents with 85 years total experience in the insurance industry. We ourselves have owned businesses with several hundreds of employees, which helps us understand the needs of the Boss. We are qualified to service companies doing business in all 50 states and overseas.

ATTACHMENT 9

Good News!

For Working Families:

The government has a program that may provide you and your family with Health Insurance at <u>No</u> <u>cost</u> to you!

Mr. Kenneth Stanfill will be here starting on Monday, Oct. 12, to help you determine whether or not you qualify to receive these benefits.

Commonwealth National
Life Insurance Company

Kenneth Ray Stanfill Jr.
Regional Manager

400 PATRICIA DR
HEWITT TX 76643
817-666-7154

HOME OFFICE
601-843-9091
BOX 1560
CLEVELAND MS 38732

WOODLAND SPRINGS NURSING CENTER
1010 DALLAS STREET
WACO, TEXAS 76715-0216

Mr. Stanfield informed me that Mrs. Adams
was going to pay for the insurance + the government
was going to reimburse her the money back for
it. He said it wouldn't
cost anything at all.

WOODLAND SPRINGS NURSING CENTER
1010 DALLAS STREET
WACO, TEXAS 76715-0216

2-5-93

To whom It May Concern

I Ernestine Bailey was told by Ken Stanfill concerning the Health Insurance that it was suppose to come out of our ~~[illegible]~~ earn income at the end of 93 and that it would not be deducted from our regular pay. It was suppose to be paid for by [illegible].

WOODLAND SPRINGS NURSING CENTER
1010 DALLAS STREET
WACO, TEXAS 76715-0216

(1) the nursing home would pay for the insurance & then the State would reimburse the Home.

(2) It was offered by the Government as a credit on our income tax. If we did not use it we would loose it. We could not borrow money against it we could only use it for insurance.

(3) it would cost us nothing.

WOODLAND SPRINGS NURSING CENTER
1010 DALLAS STREET
WACO, TEXAS 76715-0216

After I talk to him. I told him that I would have to
talk to my Husband about Joining in the insurance.
I never did sign anything that I want to Join

WOODLAND SPRINGS NURSING CENTER
1010 DALLAS STREET
WACO, TEXAS 76715-0216

I rember him telling me That it wouldn't cost me anythis the job and the goverment pays for it

he filled out a form for me but I didn't want it

ATTACHMENT 10

FREE

FAMILY HEALTH INSURANCE

funded by the Federal Government

Sponsored by your employer

FREE

TO QUALIFY: You must make under $22,370 in 1992 family income and must have at least one dependent child

NEW BENEFITS: Doctor visits with no deductibles
Emergency room visits with no deductibles
Disability protection, cancer coverage, and accidental death benefits

QUALIFIED EMPLOYEES MUST COMPLETE INFO AND MAIL THIS CARD TODAY

In Order To Receive The Benefits

Company Name ____________________ Location ____________________

Employee Name ____________________ Home Phone __________ Work Phone __________

From ____________________
____
____

NO POSTAGE NECESSARY IF MAILED IN THE UNITED STATES

BUSINESS REPLY MAIL

FIRST-CLASS MAIL PERMIT NO 69 TEMPE, AZ

POSTAGE WILL BE PAID BY ADDRESSEE

Employee Benefits Services
1741 W. University #149
Tempe, AZ 85281

ATTACHMENT 11

FAMILY ASSISTANCE PROGRAM

EARNED
INCOME
CREDIT

ILLUSTRATION

Single Employee with 1 child	—	$6.50/hour, paid weekly
GROSS PAY		$220.00
FICA		-16.83
FED. W/H TAX		-15.98
	CURRENT NET PAY	$187.19
ADVANCE EARNED INCOME CREDIT		+25.00
	ADJUSTED NET PAY	$212.19
FAMILY ASSISTANCE PLAN		-14.50
	NEW NET PAY	$197.69

EMERSON SWALWELL
TAX CREDIT SPECIALIST
"Immediate Increased Income For Employers and Employees"
ATAX ASSOCIATES
INTERNAL REVENUE SERVICE - IRS COMPLIANCE
5327 No. Central Expressway, Suite 315
Dallas, Texas 75206
(214) 522-8000
(Fax) 522-8086

ATTACHMENT 12

Cash for families who buy health insurance

■ WHAT IS IT?

It's cash from the IRS for families who buy health insurance.

■ WHO GETS IT?

Families who earn less than $21,250 in 1991 and pay for health insurance that covers at least one dependent child can get the cash.

■ CAN IT PAY FOR GROUP HEALTH INSURANCE?

Yes. It will help pay for group or individual health insurance policies.

■ HOW MUCH MONEY CAN I GET?

The most ***Health Insurance Credit*** anyone can get is $428. The cash benefit you get can't be more than you pay for health insurance. You can't get more than is shown in the table, based on your income.

■ ARE THERE OTHER CASH BENEFITS?

Yes. The ***Earned Income Credit*** can give you up to $1,235 in 1991. It will increase in 1992. The amount you get will depend on how much your family earns, as shown in the table.

■ HOW DO I GET IT?

File an income tax return at the end of the year. Show on your return how much you paid for health insurance during the past year.

■ CAN I GET SOME OF THE MONEY NOW?

Yes. Fill out the attached W-5 form and give it to your employer. The basic ***Earned Income Credit*** will be advanced in your paychecks during the rest of the year.

■ WHAT DOES IT COST MY EMPLOYER TO ADVANCE THE EARNED INCOME CREDIT?

Nothing. Any money advanced to you will be subtracted from your employer's current payroll tax.

■ WHAT IS THE MOST MONEY THAT CAN BE ADVANCED ON MY PAYCHECK?

About $100 per month.

■ IS THERE A PENALTY IF TOO MUCH MONEY IS ADVANCED TO ME?

No. But if too much money is advanced, you must return the overpayment when you file your tax return.

■ WHAT IF I DON'T OWE ANY TAXES?

You will still get the money, even if you don't owe any income taxes.

■ DO I HAVE TO BUY A SPECIAL POLICY?

No. You can buy a health insurance policy from any insurance company licensed in your state. It can cover just your child, or it can cover your whole family.

■ MORE QUESTIONS?

Ask your health insurance agent, the IRS or your employer. Each wants to help you get the greatest benefit.

You can also call the toll free IRS number 1-800-TAX-Form and ask for the free booklet that explains the ***Earned Income Credit and the Supplemental Health Insurance Credit***.

How much money can I get?

The amounts shown are estimates. The amount you get will depend on your income and your own situation*

If your Family Income is	Your Basic Earned Income Credit With One child is	Your Basic Earned Income Credit With Two or more Children is	Your Health Insurance Credit Can Be
$1,000	$171	$177	$62
2,000	338	350	122
3,000	505	523	182
4,000	672	696	242
5,000	839	869	302
6,000	1,006	1,042	362
7,000	1,173	1,215	422
8,000	1,192	1,235	428
9,000	1,192	1,235	428
10,000	1,192	1,235	428
11,000	1,192	1,235	428
12,000	1,100	1,139	395
13,000	981	1,016	352
14,000	861	892	309
15,000	742	769	2[illegible]
16,000	623	645	22[illegible]
17,000	503	521	1[illegible]
18,000	384	398	1[illegible]
19,000	265	274	9[illegible]
20,000	146	151	5[illegible]
21,000	26	27	1[illegible]

*These are estimates only. Please contact the Internal Revenue Service (IRS) or your tax advisor for specific information on your individual situation. Estimates based on IRS Publication 1107 A (Rev. Aug. 199[illegible]

NEW CASH AND PAYROLL BENEFITS

FOR FAMILIES WHO BUY HEALTH INSURANCE

The Supplemental Health Insurance Credit and how to get it

NATIONAL ASSOCIATION OF HEALTH UNDERWRITERS

NAHU

Your Hometown Health Insurance Professional

The National Association of Health Underwriters is a 61-year-old association representing 11,000 health and disability insurance professionals throughout the United States and Canada. NAHU members serve the health insurance needs of over 100 million Americans.

National Association of Health Underwriters
1000 Connecticut Avenue, NW, Suite 1111
Washington, DC 20036

Please feel free to duplicate this brochure

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit
Advance Payment Certificate

▶ **This certificate expires on December 31, 1992.**

1992

Type or print your full name | Your social security number

Home address (number, street or rural route, apt. no.)

City, town or post office, state, and ZIP code

Note: *If you file Form W-5 with an employer to receive advance payments of the earned income credit for 1992, you must file Form 1040 or Form 1040A for 1992. If married, you must file a joint return, but see the instructions for an exception.*

		Yes	No
1	I expect to be eligible for the earned income credit for 1992. I have no other certificate in effect with any other current employer, and I choose to receive advance payment of the earned income credit		
2	Are you married?		
3	If you are married, does your spouse have a certificate in effect for 1992 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ▶ **Date** ▶

ATTACHMENT 13

NEW CASH AND PAYROLL BENEFITS

FOR FAMILIES WHO BUY HEALTH INSURANCE

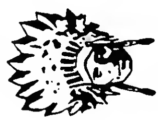
The Supplemental Health Insurance Credit and how to get it

Your Hometown Health Insurance Professional

The National Association of Health Underwriters is a 61-year-old association representing 11,000 health and disability insurance professionals throughout the United States and Canada. NAHU members serve the health insurance needs of over 100 million Americans.

National Association of Health Underwriters
1000 Connecticut Avenue, NW, Suite 1111
Washington, DC 20036

Please feel free to duplicate this brochure



KANAWHA

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit
Advance Payment Certificate

▶ This certificate expires on December 31, 1992.

1992

Type or print your full name | Your social security number

Home address (number, street or rural route, apt. no.)

City, town or post office, state, and ZIP code

Note: *If you file Form W-5 with an employer to receive advance payments of the earned income credit for 1992, you must file Form 1040 or Form 1040A for 1992. If married, you must file a joint return, but see the instructions for an exception.*

	Yes	No
1 I expect to be eligible for the earned income credit for 1992. I have no other certificate in effect with any other current employer, and I choose to receive advance payment of the earned income credit		
2 Are you married?		
3 If you are married, does your spouse have a certificate in effect for 1992 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ▶ Date ▶

ATTACHMENT 14

Health Insurance Tax Credit

Up to $428 a year is available from the U.S. Government for Dependent Health Insurance.

Eligible Families

Combined income less than $21,250
Health insurance on at least one dependent child

Tax Dollars Available

Up to $428 per year

Earned Income Credit

Up to $1,235 per year is available.

Eligible Families

Combined income less than $21,250
Health insurance on at least one dependent child

Payroll Tax Dollars Available

Up to $1,192 per year — if one dependent child
Up to $1,235 per year — if two or more dependent children

·278

Pyramid Life:

Financial strength
Excellent claims service
Quality product portfolio
A midwestern company
A tradition of quality products since 1913

Pyramid products available for purchase using the Health Insurance Tax Credit and Earned Income Credit include:

- Indemnity Plus Supplemental Insurance
- Cancer Plus Insurance
- $2,000,000 Comprehensive Major Medical Insurance
- Short Term Comprehensive Major Medical Insurance

The Company You Can Depend Upon

PYRAMID LIFE
6201 Johnson Drive
Shawnee Mission, Kansas 66202
1-800-777-1126

PYRAMID LIFE SINCE 1913

THE PYRAMID LIFE INSURANCE COMPANY, 6201 JOHNSON DRIVE, SHAWNEE MISSION, KANSAS 66202 (913) 722-1110

February 23, 1993

Mr. Jefferson K. Fox
Staff Attorney
Committee on Ways and Means
U.S. House of Representatives
Washington, D.C. 20515

FAX: 202-225-0787

Dear Mr. Fox:

Thank you for your February 19, 1993, letter.

A copy of our brochure describing the health insurance policy available to persons eligible to claim Earned Income Credit is attached per your request.

Our marketing department did not have the names of any other companies marketing EIC policies so I am unable to provide you with a list.

The colors in our brochure may not fax very well, so please feel free to call me if you have any questions or if the fax is not readable.

Sincerely,

Lois E. Alexander

Lois E. Alexander
Filing and Compliance Manager

LEA/sb

Enclosure

Indemnity Plus

H-75

Supplemental Insurance Plan

THE PYRAMID LIFE INSURANCE COMPANY

Indemnity Plus

Supplemental Insurance Plan (Form H-75)

Pyramid Life's *Indemnity Plus* was designed with the needs of you, the insurance consumer, in mind. *Indemnity Plus* allows you to select only those benefits and benefit amounts that fit your specific needs and budget. Benefits are payable in addition to any other policy that you may have with Pyramid Life or any other company. Other insurance coverage must be disclosed on the application. The amount of H-75 coverage that is issued may be limited depending on the amount of insurance coverage you currently have in force. Policy H-75 is guaranteed renewable to the anniversary date following age 67 or Medicare participation, whichever is first.

How the Indemnity Plus Policy (H-75) Works

These Options can be selected for people between the Ages of 0 and 64:

Option A – Hospital Daily Benefit

Pays the total daily benefit amount you select, up to 120 days of hospital confinement in a calendar year.

Option B – Hospital Inpatient Miscellaneous

Pays 80% of the in-hospital miscellaneous covered charges incurred up to the amount you select for each calendar year. This benefit pays for services, treatment or supplies charged by the hospital including: operating room, anesthesia, x-rays, laboratory, oxygen, pharmacy charges, casts or splints and any other medically necessary items.

Option C – Outpatient Miscellaneous

Pays 80% of outpatient miscellaneous covered charges incurred up to the amount you select for each calendar year. Items covered include those listed under the hospital inpatient miscellaneous option, but these covered charges must be incurred in a hospital outpatient facility, freestanding or ambulatory surgical center, clinic, or doctor's office.

Option D – Surgical Expense Benefit

Pays for the covered charges incurred for surgery in hospital, hospital outpatient facility, freestanding ambulatory surgical unit, clinic or doctor's office. The maximum payment is the amount you select times the factor shown on the schedule of operations for each surgical procedure. Also pays for the administration of anesthesia up to 25% of the amount paid for the surgery.

Option E – Additional Daily Benefit

Pays 100% of the Additional Daily Benefit you select for each day you are confined in an Intensive Care Unit (I.C.U.), up to 30 days each calendar year. Since this payment is in addition to payment under the Hospital Daily Benefit (Option A), Option A must be selected in order to have this Option E benefit.

This option also provides benefits for Extended Care Facility (E.C.F.) and Home Health Care (H.H.C.). Both of these benefits also are payable for up to 30 days each calendar year as follows: 75% of the amount selected for E.C.F. and 50% of the amount selected for H.H.C. if prescribed by a physician in lieu of hospital confinement.

Option F – Physician Visits

Pays the covered charges incurred for physician visits at home, office, hospital or clinic, up to the maximum you select per visit. This benefit is payable for a maximum of one visit per day for 30 days per calendar year.

Please refer to the Outline of Coverage (OH-7) attached in this brochure for a complete description of this policy plan's benefits, limitations, and exclusions.

Benefit Selection Chart

Option	Minimum Units	Maximum Units	Unit Value	Minimum Benefit	Maximum Benefit	Number of Units Selected
A	5	20	$10	$50/day up to $6000/year	$200/day up to $24,000/year	
B	1	6	$1000	80% up to $1000/year	80% up to $6000/year	
C	1	6	$1000	80% up to $1000/year	80% up to $6000/year	
D	1	4	$500	Units Selected times Surgery Factor	Units Selected times Surgery Factor	
E	5	20	$10	ICU-$1500/year ECF-$1125/year HHC-$750/year	ICU-$6000/year ECF-$4500/year HHC-$3000/year	Number of units must be the same as Option A
F	2	5	$5	$10/visit up to $300/year	$25/visit up to $750/year	

COMMONWEALTH NATIONAL LIFE INSURANCE COMPANY

113 South Davis Avenue

Cleveland, Mississippi 38732 **ATTACHMENT 15**

HOSPITAL CONFINEMENT INDEMNITY COVERAGE
POLICY FORM NUMBER HI-124
OUTLINE OF COVERAGE

(1) READ YOUR POLICY CAREFULLY – This outline of coverage provides a very brief description of the important features of your policy. This is not the insurance contract and only the actual policy provisions will control. The policy itself sets forth in detail the rights and obligations of both you and your insurance company. It is, therefore, important that you READ YOUR POLICY CAREFULLY.

(2) HOSPITAL CONFINEMENT INDEMNITY COVERAGE – Policies of this category are designed to provide to persons insured coverage in the form of a fixed daily benefit during periods of hospitalization resulting from a covered accident or sickness subject to any limitations set forth in the policy. Such policies do not provide any benefits other than this fixed daily indemnity for hospital confinement.

(3) HOSPITAL CONFINEMENT BENEFIT – **The company will pay a daily hospital confinement benefit in the amount of** $30.00 **$40.00, $50.00, $75.00 or $100.00 per day**, as applied for on the application, for any confinement resulting from a covered accident or sickness for up to 750 days per illness. A "day" is defined as a 24-hour period. "Hospital" does not include a nursing home, convalescent home, extended care or similar facilities.

OPTIONAL BENEFIT RIDERS

The following riders will be included only if you apply for them. An additional premium, shown in the application, is required.

(A) EMERGENCY ACCIDENT RIDER – If an Insured Person sustains an Injury which requires Emergency Care by a Physician, we will pay the actual expenses incurred up to $100.00 per incident. The treatment must be: (1) rendered in an emergency room of a hospital or in a Physician's office; and (2) received within 72 hours of the injury. Except as provided in the Common Accident Benefit Provision, we will not pay for more than 4 Emergency Care treatments in a Calendar Year per family.

COMMON ACCIDENT BENEFIT – If Insured Persons in a family incur Emergency Care expenses for Injuries sustained as the result of any one accident, and during the Calendar Year in which the accident occurs less than 4 Emergency Care treatments have been covered under this rider for the family, we will pay the actual expenses incurred by each Insured Person up to $100.00 per Insured Person.

(B) OPTIONAL OUTPATIENT SICKNESS RIDER – If an Insured Person requires outpatient treatment due to a Sickness, we will pay the expenses actually incurred for any on Sickness when such treatment is rendered in: (1) out-of-Hospital facilities – up to the Maximum Benefit per sickness as applied for on the application; (2) a Hospital emergency room up to twice the Maximum Benefit per sickness as applied for in the application. Outpatient treatment includes Physician's services, medical treatments and supplies received in such facilities. Benefits for outpatient treatments are limited to 4 Sickness per family each Calendar Year.

(4) RENEWABILITY – This policy is guaranteed renewable to age 70 with premiums subject to change. The policy automatically terminates on the policy anniversary following the attainment of age 70. However, premiums cannot be changed unless the change applies to all policies of this form number in your state of residence. This policy is written on persons who have not attained age 60. Upon dissolution of marriage by a valid decree, the spouse (if covered under this policy) may apply and receive without evidence of insurability a policy most nearly similar to the terminated coverage. The application must be submitted to the company within 60 days following the entry of the dissolution decree and appropriate premiums paid.

(5) LIMITATIONS AND EXCLUSIONS– This policy does not pay for (a) injuries sustained or sickness contracted while in the military, naval or air forces of any country; (The portion of any premium paid for you or any covered Family Member while in the military, naval or air force will be refunded when we receive notice and proof of such service) (b) injuries or sickness caused by a war or any act of war, whether declared or undeclared; or any conflict between the armed forces of countries; (c) suicide or any attempt at suicide, whether sane or insane; (d) intentionally self-inflicted injury; (e) mental disorder, drug addiction or alcholoism; (f) routine well-baby care for newborn children (complications of pregnancy will be covered as any other illness).

(6) PRE-EXISTING CONDITIONS – A condition for which medical advice or treatment was recommended by a physician or received from a physician within a 2 years period preceding the Effective Date of Coverage. No coverage shall be available for such sicknesses or accidents occurring or manifesting themselves before the Effective Date of Coverage. After 2 years from the Effective Date, only fraudulent misstatements in the application shall be used to void the policy or to deny a claim for loss incurred commencing after the 2 year period. No claim for loss incurred commencing after 2 years from the Effective Date shall be reduced or denied because a disease or physical condition, not excluded by name or specific description, had existed before the Effective Date of coverage.

(7) This Outline of Coverage is only a brief summary of the policy and is not the contract of insurance. The policy or contract itself sets forth the rights and obligations of the insured and the Company.

This policy IS NOT A MEDICARE SUPPLEMENT policy. If you are eligible for Medicare, review the Medicare Supplement Buyer's Guide available from the company.

HI-124-OC-REV 3/92

The Cash Guard Series℠

ATTACHMENT 16

Standard Plan

A ~~HOSPITAL~~ INDEMNITY INSURANCE PLAN

CAPITOL AMERICAN
Business Marketing Division

HA000/BP1ST-A

Did You Know:

- The cost of medical care has increased 117% from 1980-1990, almost double the 59% increase in the Consumer Price Index for all items.[1]
- The average daily hospital room charge has increased from $128 in 1980 to $315 in 1990... an increase of 146%.[2]
- The average hospital cost per day has increased from $245 in 1980 to $687 in 1990 ...an increase of 180%.[3]
- In 1990, the average length of stay in U.S. community hospitals was 7.2 days.[3]

A trip to the hospital can be very expensive. Many group health plans are designed to pay your medical expenses, and do not cover out-of-pocket expenses such as deductibles and co-insurance, transportation, out-of-town lodging, and added family care expenses. According to a 1990 survey of employers by the U.S. Chamber of Commerce, 47% of the firms responding reported that they had either raised an existing deductible or instituted a deductible on to their health insurance plans. Capitol American's Cash Guard Series℠ is designed to complement your major medical plan and help you with these increasing out-of-pocket costs.

Sources [1]Employee Benefits 1991, U.S. Chamber Research Center
[2]Hospital Semi-Private Room Charges Survey, 1990, HIAA
[3]Hospital Statistics 1991, American Hospital Association

CAPITOL AMERICAN'S HOSPITAL INDEMNITY INSURANCE CAN HELP.

You May Choose From One of These Program Benefit Levels

- ☐ **$50 per day ($1,500 per month)**
- ☐ **$75 per day ($2,250 per month)**
- ☐ **$100 per day ($3,000 per month)**

Premiums will be based on the benefit level selected.

These Benefit Levels Provide the Following Features

HOSPITAL CONFINEMENT BENEFIT

We will pay the daily benefit chosen for each day the insured is confined to a hospital. We will pay this benefit for up to two years per confinement.

INTENSIVE CARE BENEFIT

We will pay an additional benefit equal to the chosen hospital confinement level for each day of a period of confinement that you are confined to an Intensive Care Unit. We will pay this benefit for up to 30 days per confinement.

Hospital Indemnity Program

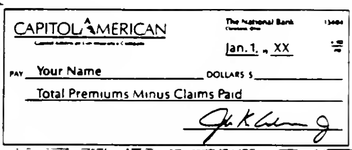
The Return of Premium Benefit Rider

HERE IS HOW IT WORKS: You buy your protection today Then, if you have kept your insurance in force, at the end of every 20 years, or the rider anniversary date following your 75th birthday, if that comes sooner, you receive a check for all premiums paid, minus any claims paid

Let's look at three examples of what can happen with this program

Example Premium of $30/month paid for 20 years

	No Claim	*Small Claim*	*Large Claim*
Total Premium Paid By You	$7,200	$7 200	$7 200
Claims Paid	0	2 000	15 000
Amount of Refund To You	7,200	5,200	0



THE PLAN THAT GUARDS YOU TODAY AND TOMORROW

The benefits described are contained in Form [illegible] and HA000/PS1GH A including state abbre[illegible]

Return of Premium benefits described are contained [illegible] and ROP HA-GH A including state abbre[illegible]

THE CASH GUARD SERIES℠ OFFERS THESE SPECIAL FEATURES – backed by the strength of Capitol American.

Direct benefits. Payments go directly to you unless you specify otherwise.

Extended confinement. While most plans only cover confinement periods of up to one year, this plan covers confinement periods of up to two years.

Guaranteed payments. Your plan pays regardless of other insurance you have.

Guaranteed renewable. Your insurance is guaranteed renewable to age 75. You can never be singled out for a rate increase. Rates can be changed only if the rate is changed for all policies of this kind in the same state.

Level premium. Your insurance can continue at the same premium rate if you change jobs.

No waiting period. Once your coverage is effective, you are eligible for hospitalization benefits immediately whether your confinement is the result of a sickness or accident

Safety. Among all life and health insurance companies with total assets exceeding $50 million as of 12/31/90, and premiums written in 1990 of at least $50 million, Capitol American Life Insurance ranks #1 in terms of percent of total assets invested in U.S. government securities. Our conclusion is based upon information that insurance companies submit to the National Association of Insurance Commissioners

Stability. Since Capitol American was founded we have never raised a premium rate

Hospital Indemnity Program

Pre-existing Condition Limitation

This plan does not cover any sickness, injury, or condition which was diagnosed by a physician or for which you consulted a physician within two years prior to the date you become insured under this policy

Limitations and Exclusions

We will not pay benefits for loss contributed to, caused by, or resulting from your being exposed to war or any act of war; participating in or contracting with the armed forces (including Coast Guard); committing or attempting to commit suicide, regardless of mental capacity; injuring or attempting to injure yourself intentionally, regardless of mental capacity; being more than 40 miles outside the territorial limits of the United States, Canada, and Puerto Rico; riding in or driving any motor-driven vehicle in a race, stunt show or speed test, or while testing any vehicle on any race course or speedway; operating, learning to operate, serving as a crew member on, or jumping or falling from any aircraft including those which are not motor-driven; normal pregnancy; newborn child's routine nursing or well-baby care; cosmetic surgery that is not for the diagnosis or treatment of sickness or accidental injury; having a behavioral or psychological disorder, disease, or syndrome without demonstrable organic origin, being intoxicated, or under the influence of any narcotic, unless under the direction of a physician, alcoholism, drug abuse or chemical dependency, participating or attempting to participate in an illegal act (the illegal act must be a felony in ME and MT); or working at an illegal job or, participating in any sporting event for pay or prize money. Confined to a hospital means assigned to a bed, for which prevailing market rates are charged as an inpatient in a hospital on the advice of a physician. The confinement must be medically necessary and as a result of accidental injury or sickness

Hospital – A hospital is not a hospice, a skilled nursing facility, a nursing home, an extended care facility, a convalescent home, a rest home or a home for the aged, a sanitarium, a rehabilitation center, a place for the treatment of substance abuse, or a facility for the care and treatment of mental disease or mental disorders

Intensive Care Unit – An intensive care unit is not a progressive care unit, a sub-acute intensive care unit, an intermediate care unit, a step-down unit, a monitored room, an observation unit, a surgical recovery room, or a room, bed or ward customarily used for patient confinement.

CAPITOL AMERICAN
Business Marketing Division

Executive Office, 1300 East Ninth Street, Cleveland Ohio 44114-1565, (800) 541-2254

ATTACHMENT 17

COLONIAL LIFE & ACCIDENT INSURANCE COMPANY

BILLING CONTROL NUMBER E-915291-0 POLICY NUMBER 20013 501 0

```
*************************************************************
* THIS POLICY PROVIDES THOSE BENEFITS SHOWN IN THE POLICY   *
* SCHEDULE BELOW.  THESE BENEFITS ARE INDICATED WITH A      *
* DOLLAR AMOUNT OPPOSITE THE BENEFIT DESCRIPTION.           *
*************************************************************
```

NAMED INSURED	JOHN DOE
ADDRESS	123 ANY STREET ANY CITY, ANY STATE 00000

EFFECTIVE DATE OF COVERAGE 9-1-92

TOTAL MONTHLY PREMIUM $9.35

COVERAGE: INSURED

POLICY SCHEDULE

OUTPATIENT SURGERY BENEFIT	THE AMOUNT CHARGED UP TO $200 PER OUTPATIENT SURGERY
HOSPITAL ADMISSION BENEFIT	THE AMOUNT CHARGED UP TO $200 PER ADMISSION
HOSPITAL CONFINEMENT BENEFIT	THE AMOUNT CHARGED UP TO $50/DAY UP TO 365 DAYS
HOSPITAL INTENSIVE CARE UNIT CONFINEMENT BENEFIT	THE AMOUNT CHARGED UP TO $100/DAY UP TO 365 DAYS
WAIVER OF PREMIUM	AVAILABLE FOR NAMED INSURED ONLY

Chairman PICKLE. Do any of the Members have any questions of Mr. Miller?

Mr. KLECZKA. If I might, Mr. Miller, I was under the impression that the health care credit would come at the end of the tax year. Evidently I am in error. A person can apply for that and get the health care credit on a monthly basis?

Mr. MILLER. No. The health credit can only be received at the end of the tax year when he files his income tax return. The insurers are getting individuals to file for the basic credit and using that to pay for the insurance and telling them that will be reimbursed at the end of the year when they file for that health insurance credit.

Mr. KLECZKA. What in fact are these insurers selling these people? Say the employer has a basic plan for the employee. Are they saying that their organization can provide money to offset their employee costs?

Mr. MILLER. They are selling supplemental insurance. What they are telling them is we will pay—this policy will pay you up to $25 or $50 per office visit. So if there is a deductible, perhaps they market it in that manner as covering that deductible. But in most instances these people are not covered by employer-based health insurance. These are $4 an hour employees.

Mr. KLECZKA. What is the insurance you are selling them, supplemental or basic health plan?

Mr. MILLER. These policies were basically designed as supplemental insurance. As AFLAC will testify, that is what these policies are, but to these individuals these policies are being sold as primary policies. They are inadequate as far as health insurance is considered. They pay $50 a day in the hospital. It doesn't really do much. Oftentimes it ends up costing the taxpayer more than what they are going to get back from the Government.

Mr. KLECZKA. Thank you.

Chairman PICKLE. Thank you, Mr. Miller, for your testimony.

The Chair is going to ask that all members of the panel please raise your right hands.

[Witnesses sworn.]

Chairman PICKLE. The answer is "I do." Let the record so show.

Our first witness will be Robert Greenstein, director of the Center on Budget and Policy Priorities; then Kathy Till, revenue agent for the IRS' Birmingham district office; and Warren Steele, marketing administrator of AFLAC; and Robert Carver Acting Assistant Commissioner, Returns Processing, Internal Revenue Service, accompanied by Doug Crouch.

First Mr. Robert Greenstein.

STATEMENT OF ROBERT GREENSTEIN, DIRECTOR, CENTER ON BUDGET AND POLICY PRIORITIES

Mr. GREENSTEIN. Thank you, Mr. Chairman.

I am Robert Greenstein, director of the Center on Budget and Policy Priorities, a nonprofit institution which conducts research analysis on Federal and State policies affecting low- and moderate-income families and individuals.

For several years we have conducted a national campaign to inform eligible working families about the earned income credit and

have developed an outreach network of over 7,500 organizations, including businesses, service providers, community-based organizations, State and local agencies and unions, and have worked closely with the IRS in these efforts.

It is as part of this work that we first began to hear about the problems that occasioned this hearing and some months ago brought them to the attention of the staff of this committee. In general, the basic earned income credit is an outstanding policy mechanism and works extremely well. But last year we learned of a disturbing trend involving the EIC health insurance credit. Low-income workers without health insurance are being approached by insurance agents and encouraged to purchase insurance paid for in part by their EIC benefits. The agents frequently offer flimsy insurance policies and charge fees exceeding the maximum health credit these families can receive. The families are often misled about the scope of the health insurance and often not told they must sacrifice some of their basic EIC benefits to pay for the policies.

I would note that the Ways and Means Committee has twice voted to repeal the health insurance credit and the new Clinton administration budget envisions the repeal of the health insurance credit. We think that is a core element of the appropriate response to this problem. The committee on both occasions would have taken the health insurance credit money and put it back into the basic earned income credit. We think that is the way to go.

Early in 1992, our center began to receive information about insurance agents who were marketing these policies. Some of the information came from agents themselves who contacted us because of our EIC network. By requesting written materials from them, we were able to learn how they marketed their policies. Typically, an insurance agent approaches an employer who does not offer any health insurance for employees.

The agent tells the employer that insurance can be provided to certain employees at no cost to either the employer or the worker. The Federal Government will pick up the tab, the agent says. The agent usually asks the employer for permission to meet with his or her employees and ultimately meets with employees one on one.

At the meetings, the agent tries to determine whether the employee is eligible for the earned income credit. If so, the agent explains that the worker can arrange to have the employer add Government-supplied funds to his paycheck and then deduct some or all of those funds to pay the health insurance premiums.

In this way, thousands of workers have been signed up for these health insurance policies. On the surface, this may seem to be what Congress hoped for when it enacted the health credit. On closer examination, there are serious problems.

We have obtained copies of various promotional materials used to persuade employers to participate in these arrangements. Some of the materials are highly misleading. One common claim made in the materials—and we understand in verbal statements to employers—is that employers are required by law to participate in such health insurance arrangements.

Some promotional materials falsely suggest that employers who refuse to participate will be subject to IRS penalties. The materials are also notable for what they do not say. For example, one firm's

materials fail to explain that workers can receive the basic earned income credit in their regular paychecks without also having money deducted for health insurance premiums.

This firm's materials fail to point out that the premiums some workers are charged will exceed their expected EIC health credit by hundreds of dollars. Typically the materials given to employers also fail to explain what happens to a worker who receives advanced earned income credit payments, but at the end of the year turns out not to have been eligible for the earned income credit or to be entitled to less than originally thought. Such a worker must repay to the IRS some or all of the advanced income credit payments received.

Employees are often misled, too. Last November we received a phone call from a manager of a nursing home in Texas. The manager had been approached by a health insurance agent and permitted the agent to speak to her employees about an EIC-based health insurance plan. Thirty employees signed up for the interview.

The manager later asked several what the agent had said. Each had been told the nursing home would pay for his or her health insurance and the Government would pay the nursing home back. The workers had not been told that many of them would have to pay from their own pockets for the policy since the premiums charged would exceed the supplemental EIC health benefits to which they would be entitled.

Some agents fail to tell their potential customers that the so-called Government funds used to help pay for these insurance plans are really the worker's own income credit benefits. This is especially troubling in cases where the premiums exceed the worker's health credit and money must be subtracted from the worker's basic earned income credit.

In these cases, a worker needs this information to determine whether the insurance policy is worth the cost. Some agents try to create the impression they are connected with the IRS and that employers are obligated to cooperate with them.

I will skip over a little of the next part of the testimony since the committee staff just briefed you on it and go to page 6 of the oral testimony.

Most of the health insurance policies being sold do not appear to be worth their price tags. A policy that we have submitted in attachment B is an example.

This policy, offered by an insurance company in Mississippi, covers a maximum of four outpatient visits per family per year. A family of four would thus be permitted an average of only one visit per year. If a family member were to develop a serious health condition, the required additional referrals, treatment or monitoring, those visits would not be covered. Moreover, the maximum amount per visit is $100.

As anyone who has received a checkup or seen a specialist knows, $100 doesn't go a long way. Anything beyond that would come from the worker's pocket.

The policy also indicates that any illness within 2 years prior to signup is not covered. Many insurance policies have a preexisting illness clause, but 2 years is an unusually long period.

Hospital coverage also is limited. According to these materials, the maximum daily benefit for hospital confinement ranges from $30 to $100 per day depending on the premiums paid. Compared to the actual daily cost of a hospital stay, $100 is a pittance.

How much coverage does this policy really provide? Unless someone in the policyholder's family is hospitalized during the year, the policyholder is likely to be reimbursed no more than $400—the maximum benefit for four outpatient visits. Yet premiums for this policy would cost a family $754. That $754 would exceed the worker's health insurance credit, the maximum health insurance the worker could receive, by $300, which would come out of the basic earned income credit benefit.

One Texas agent that we have learned about takes this policy still further. To make the arrangement more palatable to the employers, the agent's promotional materials explain that employers can charge each worker $2 to $5 per month for the privilege of having health insurance premiums deducted from their paychecks. That means an additional hit of $24 to $60 per year for each worker, none of which can be reimbursed under the EIC health credit.

In conclusion, the health credit is now being used to mislead substantial numbers of low-income working parents into purchasing flimsy insurance policies that cost more than they are worth, and many families sacrifice part of their basic EIC benefits—meant to supplement their wages and bring them closer to the poverty line—to purchase these policies, often unknowingly.

Action is needed to protect such families. This committee in the past and the Clinton administration have proposed to eliminate the health insurance credit and channel the savings back to the basic earned income credit benefit. We believe that is an excellent proposal. We also believe the committee should look at other protections, because even without the health insurance credit, some companies, and some agents may continue to try to mine this field.

Thank you.

[The prepared statement and attachments follow;]

TESTIMONY OF

Robert Greenstein
Director, Center on Budget and Policy Priorities

before the
Oversight Subcommittee
of the
House Committee on Ways and Means

March 4, 1993

I appreciate the invitation to testify here today. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities. The Center is a non-profit institution that conducts research and analysis on an array of federal and state policies affecting low- and moderate-income families and individuals. Since the mid-1980s, the Center has worked closely with the House Ways and Means Committee on policy issues related to the Earned Income Credit.

For several years now, the Center has coordinated a national campaign to inform eligible working families about the Earned Income Credit. In that time we have developed an outreach network of over 7,500 organizations that includes businesses, civil rights groups, foundations, human service providers, community-based organizations, advocates, state and local agencies and unions. As part of this effort, Center staff have traveled to over 20 cities in the past two years to teach local organizations about the EIC and to assist them in building local outreach networks. Coincidentally, among the states we have visited are several represented by Oversight Subcommittee members, including Texas, New York, Louisiana, Alabama, and Tennessee. The Internal Revenue Service has been a partner in all these trainings.

As conductors of a national information effort concerning the EIC, the Center receives calls from hundreds of organizations around the country seeking advice or sharing information. Through a variety of contacts, the Center became aware last year of a disturbing trend involving the EIC "health credit." Low-income workers, typically those lacking health insurance, were being approached by insurance agents and encouraged to purchase insurance in exchange for part of their EIC benefits. Upon further investigation, we learned that most of these agents were selling flimsy health insurance policies and charging fees that often exceeded the EIC health credit amount to which these families were entitled. Workers were being misled about the comprehensiveness of the insurance and were not being told they would need to sacrifice some of their *basic* EIC benefits to pay for the policies.

In addition, we learned that insurance agents, in an effort to gain access to large numbers of workers, were sometimes providing misleading information to gain the cooperation of employers. These practices continue today. We receive several calls per week from disgruntled employers or from insurance agents seeking referrals.

As you may know, President Clinton's budget proposal calls for the elimination of the supplemental EIC health credit. The Ways and Means Committee twice has approved legislation that would eliminate the EIC health credit, and we concur that it is an excellent idea. Our testimony today underscores the importance of the President's proposal.

Background on the EIC health credit

The supplemental EIC health credit was established by the Omnibus Budget Reconciliation Act of 1990. The primary goal in creating it was to enable low-income working parents to purchase health coverage for their uninsured children. The health credit was first made available to families in tax year 1991.

The credit works in the following way: if a family is eligible for the basic EIC benefit *and* paid some premiums for a health insurance policy covering a child, the family is entitled to benefits under the EIC health credit. The size of the health credit a family receives depends on its income level and on the amount of premiums paid. For tax year 1992, the maximum health benefit a family can receive is $451.

According to IRS data, some 2.3 million families received the supplemental health credit for tax year 1991.

Serious problems have emerged with the EIC health credit

Upon its enactment, the EIC health credit was seen as a way to help low-income workers obtain health coverage for their uninsured children. As I indicated earlier, however, serious problems have emerged with this benefit. Insurance companies are selling inferior health insurance policies to uninsured workers, manipulating employers into helping them reach these workers, and charging many workers more money than they are entitled to under the EIC health credit, which means the workers end up paying some of the premiums out of pocket, sometimes unknowingly.

Early in 1992, the Center began to receive scattered reports about insurance agents who were marketing insurance policies to workers eligible for the EIC. Several of the earliest calls came from insurance agents themselves. These agents knew we had extensive contacts through our EIC outreach campaign and were calling to request referrals. Several other calls came from employers or from IRS employees who, like the Center, had been approached by insurance agents seeking referrals but were not sure the agents were "on the level."

By asking questions and requesting written materials from the insurance agents, Center staff learned how the agents were marketing their policies. In most cases, the scenario goes like this: an insurance agent approaches an employer who does not offer health insurance to his or her workers. The agent tells the employer that insurance can be provided to certain employees at no cost to the employer or to the worker. Instead, the agent says, the federal government will pick up the tab.

At this point, the agent might ask the employer for permission to meet with his or her employees. Although the agent might first meet with the workers as a group, ultimately the agent meets with interested employees one-on-one. At these meetings, the insurance agent tries to determine whether the employee is eligible for the EIC. If the worker appears eligible, the agent explains that the worker can arrange to have his employer add "government-supplied" funds to his paycheck and then deduct some or all of those funds to pay the health insurance premiums.

In this way, thousands of workers are said to have purchased health insurance coverage for their children.

The veneer and the reality

On the surface, this approach may seem to be just what Congress hoped for when proposing the EIC health credit: a tax break that helps low-wage workers obtain affordable health insurance for their children. On closer examination, however, there are serious problems with these policies and the way they are marketed.

The first issue: manipulating employers

Over the past year, the Center has obtained copies of various promotional materials used to persuade employers to participate in these health insurance arrangements. Some of the agents' materials use misleading information and even intimidation to "sell" their services to employers.

One of the most common claims made in these materials — and, we understand, in verbal statements made to employers — is that employers are required by law to participate in such health insurance arrangements. In fact, employers are not, so far as we know, required to provide insurance agents with access to their workers or to deduct premiums from an employee's paychecks for a policy purchased individually. Some promotional materials even suggest that employers who refuse to participate in such insurance arrangements will be subject to IRS penalties (see Attachment A). This is false.

In many cases, insurance agents and their promotional materials also are notable for what they do *not* tell employers. For example, one firm's materials fail to explain that workers can receive the basic EIC in their regular paychecks without also having money deducted for health insurance premiums.[1] This firm's materials also fail to point out that the premiums some workers are charged will exceed their expected EIC health credit by hundreds of dollars. In one illustration, a worker entitled to the maximum health credit of $451 in 1992 pays insurance premiums of $754, or $300 more than he receives under the EIC health credit. The difference would have to come from the worker's basic EIC (see Attachment B).

Typically, the materials given to employers also fail to explain what happens to a worker who receives advance EIC payments but, at the end of the year, turns out not to have been eligible for the EIC or to be entitled to less than originally thought. Such a worker must repay to the IRS some or all of the advance EIC payments received. This is not an idle concern. A 1992 survey by the General Accounting Office found that a significant proportion of workers who received advance EIC payments in a recent year received more than they ultimately were entitled to.

Misleading workers

Most of the promotional materials we have seen so far are meant for employers, not workers. Even so, there are examples of misleading promotions to workers.

Last November, for example, Center staff received a phone call from the manager of a nursing home in Texas. The manager had been approached by a health insurance agent and had permitted the agent to speak to her employees about an

[1] While the vast majority of families eligible for the EIC obtain their benefits in one lump sum by filing a federal income tax return and a form called Schedule EIC, eligible workers can opt to receive their basic EIC in installments in their regular paychecks. These are called EIC "advance payments." The supplemental health insurance credit is *not* available in advance, however. An eligible worker must apply for it after the end of the tax year by filing a tax return and Schedule EIC.

EIC-based health insurance plan. Some thirty employees subsequently signed up to be interviewed, but the manager, who was skeptical, randomly surveyed three of these employees afterward and asked what the agent had told them. Each worker had been told that the nursing home would pay for their health insurance, and that the government would pay the nursing home back.

Of course, this is not how the EIC health credit works. Moreover, many of these employees actually would have to pay from their own pockets for this agent's policy, since the premium amounts charged would exceed the supplemental EIC health benefits to which they were entitled.

Some agents fail to tell their potential customers that the government funds used to help pay for these insurance plans are from the EIC. This omission is negligent, particularly if the premiums exceed the worker's health credit and additional money must be subtracted from the worker's basic EIC. A worker should be told that his EIC, not some nebulous "government funds," will be used to pay for the health insurance policy. The worker needs that information to decide whether the insurance policy is worth the expense.

Implying an affiliation with the IRS

Some insurance agents try to create the impression they are connected with the IRS. This is one of the more outrageous tactics agents use to intimidate employers into working with them. An example is provided in Attachment C. As you can see, the letterhead used by this Texas firm reads: "EIC Compliance for Internal Revenue Service." The key word is "compliance." The subtle implication here is that employers who do not "comply" with the agent's wishes may suffer for it.

This company's promotional materials also include a flyer that shows the IRS' name and logo at the top of the page, and the firm's name and address at the bottom, followed by the moniker: "Internal Revenue Service — EIC Compliance" (see Attachment D).

This problem has not gone unrecognized by the IRS. Last July, in fact, the Alabama IRS office issued a press release titled "Beware of Insurance Companies Claiming Connection with the IRS." As you can see in the highlighted portion of Attachment E, the release says that "...recently...business owners have been approached by health insurance salespersons who claim their company works with the IRS to provide health insurance to workers through the Advance Earned Income Credit...'No such relationship exists,' [District Director Philip J.] Sullivan said."

Low quality, high cost of the insurance policies

Most of the policies being sold to match a worker's EIC health credit do not appear to be worth their price tags. The policy reflected in Attachment B is an example.

This policy, offered by an insurance company based in Mississippi, is notable for several reasons. For one, the policy, which covers both the worker and his or her dependents, allows a maximum of four outpatient visits per year per family. A family of four covered by this policy therefore would be permitted an average of only one visit per member per year. If a family member were to develop a serious health condition that required additional referrals, treatment, or monitoring, these visits would not likely be covered.

Moreover, the maximum amount covered per visit is $100. As any one who has received a complete check-up or seen a specialist knows, $100 does not go a long way. Any fees in excess of $100 would be taken from the worker's pocket.

The policy also indicates that any illness for which a policyholder was treated or received medical advice within *two years* prior to sign-up is not a covered illness. While many insurance policies have a "pre-existing illness" clause, two years is an unusually long period to specify.

Hospital coverage also is limited. According to the materials, the maximum daily benefit for those confined to a hospital ranges between $30 and $100 per day, depending on the premiums paid. Compared to the actual daily costs of a hospital stay, regardless of the illness, $100 per day is a pittance.

How much coverage does this policy really provide? Unless someone in the policyholder's family is hospitalized during the course of the year, the policyholder is likely to be reimbursed for no more than $400, the maximum benefit for four outpatient visits. Yet the premiums for this particular policy cost the family $754 per year. Moreover, because the $754 in premiums exceeds the worker's EIC health credit by $300, this working parent would have to pay the additional $300 from his or her *basic* EIC benefit.

A Texas insurance agent takes this policy one step further. To make the arrangement more palatable to employers, the agent's promotional materials explain that employers can charge each worker $2 to $5 per month for the privilege of having health insurance premiums deducted from their paychecks. This "carrot" might be an effective tool for selling employers on the arrangement, but it means an additional hit of $24 to $60 per year to each worker — none of which, of course, can be reimbursed under the EIC health credit.

Conclusion: Much is at stake

The EIC is a highly popular program, with strong support from both houses of Congress and from both political parties. But despite the good intentions of those who proposed the health credit, the credit is being used to mislead thousands of working parents into purchasing flimsy health insurance policies that cost more than they are worth. Many families are ultimately sacrificing part of their *basic* EIC benefits to purchase these policies, often without knowing it.

Thus, we feel something needs to be done to protect low-income workers with children. We are encouraged that President Clinton has proposed to eliminate the health credit and to pour the savings back into the basic EIC benefit. We believe this is the best solution to the problem.

Having said this, however, I do want to close with a note of caution. Even if the EIC health credit is eliminated, we should not expect these flimsy policies and questionable marketing techniques to go away entirely. If the basic EIC benefit level is expanded, as President Clinton suggests, the amount of money available to eligible families through advance EIC payments — the so-called "paycheck option" — will grow also. I also think we can expect that some insurance agents will continue to approach employers with offers of government-funded health insurance for their employees and that insurance companies will continue to design subpar policies aimed at low-wage workers with children. Nevertheless, eliminating the EIC health credit is a large and significant step in the right direction.

Mr. Chairman, I thank you again for the opportunity to testify today.

Attachment A

ATAX ASSOCIATES

(1) NO COST TO THE BOSS

Yes, the plan is truly free. Even U.S. taxpayers do not pay for it. The cost is simply a reduction in income taxes, since insurance policies are paid out of tax withholding accounts. (Line 15 of IRS Form 941)

(2) NEW TAX LAW IN 1991: COMPULSORY, NOT OPTIONAL

The credit for health insurance came into effect in 1991. Failure to comply can result in "a penalty equal to the amount of the Advance EIC Payments not made." *

(3) EASY TO ADMINISTER

ATAX makes it simple for the employer. We analyze the surveys for eligible employees; calculate maximum benefits; check W-5 forms; complete insurance applications; obtain signed release for employer; enroll employees in person, by telephone or mail; obtain signed payroll deduction cards; handle inquiries, and claims. The employer may charge eligible employees from $2 to $5 per month to offset payroll deduction costs. The insurance carrier issues individual policies and bills the employer monthly.

(4) CASH INSURANCE BENEFITS: NO DEDUCTIBLES AND PROTECTION FOR NON HOSPITAL CLAIMS

Our family insurance policy is supplemental to any group plan and pays cash direct to the employee. Virtually all applications are accepted and no physical exam is required. Protection features up to $400 for accidents and up to $400 for sickness medical expenses without hospital stay. Cafeteria Plan Section 125, COBRA, co-insurance, deductibles, and coordinations do not apply. The insurance company is rated "excellent" by Best's and ranks 108 among thousands of American health insurance companies.

(5) FOUR BIG REASONS WHY YOUR COMPANY SHOULD INITIATE THIS PLAN IMMEDIATELY

1. The Boss becomes an instant hero. A new unexpected employee benefit!

2. You avoid possible negative PR if employees have to force the company to comply with IRS regulations. You avoid IRS penalties imposed by disgruntled employees.

3. Helpa you hire and retain good employees.

4. You use it or lose it. You cannot claim benefits retroactively.

(6) FREE YEAR END TAX RETURNS

ATAX has made arrangements with a non profit organization that completes and files 1040's for low income families at no charge. Applications for unused Earned Income Credit is done at that time.

(7) WHO IS "ATAX ASSOCIATES'

Our name means "no tax." Our principals are licensed insurance agents with 85 years total experience in the insurance industry. We ourselves have owned businesses with several hundreds of employees, which helps us understand the needs of the Boss. We are qualified to service companies doing business in all 50 states and overseas.

Attachment B

FAMILY ASSISTANCE PROGRAM

EARNED INCOME CREDIT

ILLUSTRATION

Single Employee with 1 child	—	$5.50/hour, paid weekly
GROSS PAY		$220.00
FICA		-16.83
FED. W/H TAX		-15.98
	CURRENT NET PAY	$187.19
ADVANCE EARNED INCOME CREDIT		+25.00
	ADJUSTED NET PAY	$212.19
FAMILY ASSISTANCE PLAN	*	-14.50 × 52 = $754
	NEW NET PAY	$197.69

EMERSON SWALWELL

TAX CREDIT SPECIALIST

"Immediate Increased Income For Employers and Employees"

ATAX ASSOCIATES

INTERNAL REVENUE SERVICE - EIC COMPLIANCE

5327 No. Central Expressway, Suite 315

Dallas, Texas 75206

(214) 522-8000

(Fax) 522-8035

Attachment C

ATAX ASSOCIATES

• EIC Compliance For Internal Revenue Service • *
• Tax Credit Specialists •

July 21, 1992

Mr. Scott Barancik
Center on Budget and Policy Priorities
777 N. Capitol Street, N.E. - Suite 705
Washington, D. C. 20002

Dear Scott:

I certainly enjoyed visiting with you by phone last week and I really appreciate your initially favorable comments about our Earned Income Credit marketing strategy. We feel we have the best package available, benefitting both the employer and employee, particularly when combined with VITA coordination.

As we discussed, I have enclosed one of our presentation folders for you to consider. We are still changing and adding to it all the time to make our program more understandable. I would be most interested in your comments and suggestions for its improvement.

I look forward to visiting with you again.

Cordially yours,

ATAX ASSOCIATES

Emerson Swalwell

Emerson Swalwell

ES/lv
Enclosure

5327 NORTH CENTRAL EXPRESSWAY • SUITE 315 • DALLAS, TEXAS 75205
(214) 522-8000 • FAX (214) 522-8035

Attachment D

New!!

U.S. GOVERNMENT PROGRAM OFFERS "FREE" HEALTH INSURANCE AND CASH!

ELIGIBILITY

- One or more dependent children
- Family income average under
  $10.75 per hour
  $1864.16 per month
  $22,370 per year

*

Department of the Treasury
Internal Revenue Service

EARNED
INCOME
CREDIT

SECTIONS 32 and 3507
INTERNAL REVENUE CODE
1992

7 ADVANTAGES TO EMPLOYER AND EMPLOYEE

1. NO COST TO EMPLOYER

2. INCREASES INCOME AND REDUCES EXPENSES

This new government program is easily administered with a payroll deduction from employer's withholding bank account.

3. IMPROVES COMPANY MORALE

There is no dispute that a happy employee is a better producer. Turnover may be markedly decreased.

4. THE BOSS BECOMES AN INSTANT HERO

When the company initiates this program, it becomes an unexpected bonus, which is more greatly appreciated. Caution: the employer should avoid being forced by IRS penalties to provide it to his employees.

5. SUPPLEMENTAL HEALTH INSURANCE PAID BY UNCLE SAM

Employee would have difficulty locating health insurance in this premium range. Employer makes it easy for employee to protect his family.

6. NO COST TO QUALIFIED EMPLOYEES

Employee's children and/or their parents may receive **free benefits** up to $100 per day hospital confinement; $400 outpatient benefits; $400 accidental injury benefits; cancer and/or 26 dread diseases protection. It is ATAX Agents' responsibility to customize every account, selecting maximum benefits for each employee. Also, under almost all circumstances, the employee receives a **cash rebate** after filing the income tax return at the end of the year.

7. SERVICES OF ATAX AGENTS

Very few insurance companies and agents offer the small individual policies that qualify for this government program. Premiums and commissions are low, often as little as 10% of typical group insurance plans. ATAX agents specialize in representing qualified insurance carriers, and in accumulating data for government entitlements as set forth by related IRS code. Your employees are prequalified, enrolled and serviced by licensed ATAX agents.

ATAX ASSOCIATES

INTERNAL REVENUE SERVICE - EIC COMPLIANCE *

Emerson Swalwell-Licensed Insurance Agent
5327 No. Central Expressway, Suite 315
Dallas, Texas 75205

Attachment E

News Release

For Release: IMMEDIATELY

Department of the Treasury
Internal Revenue Service
District Office
Birmingham, AL 35233, Tel. (205) 731-1260

July 27, 1992

92-107

Beware Of Insurance Companies Claiming Connection With IRS

A health insurance company that claims to have a special working relationship with the Internal Revenue Service should be approached with caution, warns Philip J. Sullivan, District Director of IRS in Alabama.

* This has been the case in Alabama recently where business owners have been approached by health insurance salespersons who claim their company works with the IRS to provide health insurance to workers through the Advance Earned Income Credit (EIC).

"No such relationship exists," Sullivan said. "It is important for taxpayers to know that the federal government does not endorse nor sponsor any particular health insurance program." The EIC is provided to supplement the employee's earnings throughout the year and to help them meet the cost of ongoing necessities. Federal tax credits, like the EIC, mean extra cash for taxpayers who qualify, but are not earmarked for a specific purpose like health insurance premiums.

To qualify for the EIC, families must have a child living with them for more than six months during the year and have earned less than $22,370 in 1992. If eligible, employees may receive their EIC payment as a refund when they file their federal tax return, or they may elect to receive "Advance EIC" payments. This payment is added to their regular paycheck throughout the year.

To start receiving Advance EIC, employees should complete a Form W-5 and return it to their employer. They should be certain that they are qualified to receive the credit because those who aren't must repay the Advance EIC when they file their 1992 tax return.

For more information on Advance EIC, call the IRS toll-free at 1-800-829-1040.

X X X

Chairman PICKLE. Thank you very much, Mr. Greenstein.

We are going to receive the testimony from the other witnesses and then we will come back for questions from the members of the committee.

We will ask Kathy Till, Revenue Agent from Birmingham Alabama District Office to present you testimony here.

STATEMENT OF KATHRYN TILL, REVENUE AGENT, BIRMINGHAM ALABAMA DISTRICT OFFICE, INTERNAL REVENUE SERVICE, BREWTON, ALA.

Ms. TILL. Thank you, Mr. Chairman.

My name is Kathy Till, I am a revenue agent with the Internal Revenue Service in Brewton, Ala.

I am not here today to talk about my duties as a revenue agent but to tell you about an insurance scheme that surfaced in my community last year.

Brewton is a small rural town in southern Alabama, with a population under 10,000. We are the county seat for Escambia County and are located approximately 85 miles northeast of Mobile. We are a close-knit community where neighbors care about and help each other. We have been named one of the 100 best small towns in America. Our main industries are textile and timber related.

Working in this setting for the past 9½ years has provided unique opportunities for me other than my formal auditing duties as a revenue agent. As a representative of the District Director in Brewton, I am entrusted with the care of the facilities, handle questions from the media, and make presentations to local organizations.

When I am in the office, I also provide taxpayer assistance by handing out forms and publications and answering questions about taxes and IRS notices.

We have a very active, successful Volunteer Income Tax Assistance (VITA) program in Brewton, and I participate in that as the coordinator, instructor, and volunteer. All of this exposure and contact with the public in Brewton means that when a problem or a question about IRS surfaces, it is often directed to me.

This was the case last summer. An employee from the Escambia County Courthouse called me. She worked at our VITA site in the courthouse. She wanted to know more about the free health insurance IRS provided.

She said an IRS agent had been to the courthouse, talked to all of the employees and told them that they could have free health insurance that would be provided by IRS and their employer. All they had to do was sign a form authorizing payroll deduction of the premiums, and sign a form W–5 to get the advance earned income credit to offset the premium amount.

At the end of the year, they were told this health insurance and these premiums would provide them enough additional health insurance credit to cover the premium amount.

This information was very distressing to me. I called the insurance agent and talked to him. He told me about the insurance plan and assured me he did not say he worked for IRS.

I called my manager in Mobile and discussed the problem with him. After our discussion, and based on it, I called Inspection. I

then called our Taxpayer Services chief in Birmingham and our Public Affairs Officer there. The Public Affairs Officer told me this problem had surfaced in other areas of the country and she had received some information on it from the national office and regional office in Atlanta.

The regional office put out a memorandum in April 1992, addressing this issue. This information came to my attention in the summer of 1992, and immediately after that the Public Affairs Officer put out a public service announcement to inform the public about this insurance scheme.

I went to the courthouse and talked to the employees who were affected. They did not fully understand the program, so I explained the health insurance credit, how they would qualify and what the advance earned income credit would do to their refund at the end of the year.

After they reviewed the information they had, all except three canceled the insurance. At this time, I didn't know anything else further to do.

I thought the problem was solved until this year, in January I received a phone call from a city employee. She was filling out her tax return and when she got to the earned income credit form she thought she had made an error.

Her premiums for 7 months were $439, but her supplemental health insurance credit was only $377. She wanted to know if I could review the form, which I did.

The form was filled out correctly, and I found that she had health insurance coverage from another source and had paid enough premiums to fully qualify for the $377 credit without the supplemental insurance.

As the other city employees began filling out their tax returns this year, every one of them found their refunds were going to be reduced, one by as much as $300. They subsequently canceled their insurance as well, except for one employee.

I don't know of any other people in our area who have had this problem or that have been approached by this insurance agent. But as I found out in January, despite our efforts to advertise and to publicize the problem, and to educate the public, there may still be more out there.

Thank you for inviting me today and your interest.

[The prepared statement follows:]

STATEMENT OF KATHRYN TILL
REVENUE AGENT, INTERNAL REVENUE SERVICE

March 4, 1993

My name is Kathryn Till. I am a Revenue Agent with the Internal Revenue Service in Brewton, Alabama. I began my career with the Internal Revenue Service in 1980 as a Tax Examiner at the Service Center in Atlanta, Georgia. I transferred to Brewton, Alabama (which is a post-of-duty under the Birmingham District) as a Tax Auditor in 1983 and converted to a Revenue Agent in 1991. I have a Bachelor's degree in Business Administration from Faulkner University in Montgomery, Alabama.

Brewton is a small, rural city in southern Alabama with a population of under 10,000. It is the county seat for Escambia County and is located 85 miles northeast of Mobile, Alabama and 50 miles north of Pensacola, Florida. It is a close-knit community where neighbors care for and help each other. It has been named as one of the 100 best small towns in America and was also chosen as one of the original "Main Street Cities." Our main industries are timber and textile related.

Working in this setting provides some unique opportunities for me other than my normal auditing duties as a Revenue Agent. As a representative of the District Director in Brewton I am entrusted with the care of the facilities, handle inquiries from the local media, and give speeches to local organizations. When I am in the office, I provide taxpayer assistance by handing out forms and publications and answering questions on tax law and IRS notices.

We have an active, successful Volunteer Income Tax Assistance (VITA) program in the Brewton area, and I participate in it as coordinator, instructor and volunteer. These duties give me a great deal of exposure to and contact with the public, so questions or problems about taxes or the Internal Revenue Service that surface in the Brewton area are frequently directed to me.

This was the case last year when I was contacted by an employee from the Escambia County courthouse. An employee who worked at our VITA site in the courthouse called me to get more information about "free health insurance" from the Internal Revenue Service. She stated an IRS agent had visited her at work to tell her she was eligible for a free health insurance plan sponsored by IRS and her employer. If she elected coverage she would need to sign a form authorizing payroll deduction of the premiums and a Form W-5 to receive Advance Earned Income Credit to cover the premium amount. At the end of the year she could file her return and claim the Supplemental Health Insurance Credit portion of the Earned Income Credit and get enough credit to offset the premium amount. She did not have the name of the agent but did have a copy of her payroll authorization form showing the name of the insurance company.

I telephoned the insurance company and was given the name and phone number of the agent. I called the agent to find out what had happened at the courthouse. He explained the insurance plan and assured me he did not say he worked for IRS. Brewton does not have a manager on site, so I called my manager in Mobile, Alabama to discuss the problem. We determined the IRS Inspection office should be notified. I called Inspection in Birmingham, Alabama and furnished all of the information to them. Since this did not involve a taxpayer I was examining, I was not involved in nor informed of any actions taken by Inspection.

At this point I did not know how widespread this problem may have become. I called the Chief of Taxpayer Services in the Birmingham District, to see if she had any knowledge of this problem from other parts of the state and informed the Taxpayer Education Coordinator of the problem surfacing through a VITA site. I was contacted by the Public Affairs Officer in Birmingham and was told the Southeast Regional and National Offices had received similar information from other areas in the country. The Regional Office put out a memorandum on April 29, 1992 addressing this problem and the Public Affairs Office in Birmingham sent out a public service announcement throughout the state on July 27, 1992.

After further research earlier this year, I discovered the following information. Members of a marketing firm in Little Rock, Arkansas were impersonating IRS employees to gain access to personnel records. I was told that they wore dark suits, carried identification and wore badges on their lapels. They told the personnel officers that they were from IRS and that employers were required by law to show them their payroll records so they could determine which employees qualified for this health insurance plan. They were then listing all persons qualifying for Advance Earned Income Credit (AEIC) and furnishing this list to insurance agents. The insurance agent and the marketing people then met with the employees and signed them up for supplemental health or cancer insurance through payroll deduction and the AEIC. Since the AEIC was approximately the same amount as the premium, their take home pay was almost the same -- making it appear the insurance was free. All of the employees that were contacted by them signed up for the insurance.

I met with several employees and explained the Supplemental Health Insurance Credit. Some of them already had health insurance from other sources that fully covered their children. I asked them why they would sign up for additional insurance. They said the agents told them that the government wanted to see that every child in America had health insurance and this was a means to provide it. It was free, the government was providing it, and there was no reason not to get it. The employees were made to feel guilty for not getting it for their child. They were pressured to sign up on the spot, so they did.

The premiums ranged from $35 - $75 a month. Since the insurance was taken out during the middle of the year, rather than for the entire year, some of them would have actually qualified for enough Health Insurance Credit to cover their premiums. Other employees paid premiums in excess of the maximum credit. Those paying for health insurance through other plans qualified for the Health Insurance Credit without this supplemental health or cancer insurance.

After reviewing their insurance coverage and how the AEIC would affect their tax refunds at the end of the year, all of the employees, except three, canceled the insurance. When the employer notified the insurance company about the tactics used by their agent, they contacted each employee personally to apologize and refund their premiums in full if desired.

Since I heard nothing about this insurance scheme from any other source, I felt the problem was solved in our area. During out VITA/TCE Instructor training in October 1992, I made a presentation to the group about the insurance promotion schemes to alert them to watch for this in their areas. I did not realize it would surface again in my area.

During January 1993 I was contacted at home by an employee from the City of Brewton. She too had been contacted at work by the same agents and signed up for the free insurance in 1992. When she prepared her return she found out it was not free. Her premiums, covering only seven months, were $439 but her credit was $377. She felt she had filled it out incorrectly and asked me to check it. I checked her Supplemental Health Insurance Credit, and found her figures were correct. Other city employees began to question the "free" insurance they had signed up to get. After reviewing their insurance and how the AEIC affected their tax refund, all of the employees cancelled their insurance.

The City of East Brewton had also been victimized by the same people. The City of East Brewton personnel officer said the employees canceled the insurance they purchased from these agents after they filed their 1992 tax returns and found their refund was smaller than expected -- one by $300. One employee did not cancel the insurance because he needed the insurance for his family. He did not care that his refund was reduced since his refund is always held for back child support payments.

I did not talk to every employee who took out this insurance. The ones I did talk to were female, both white and black, and either single parents or the sole support of the household. All qualified for the Earned Income Credit and most made less than $5.00 per hour. All of them believed the insurance was being provided by the Internal Revenue Service.

I do not know of any other people in the Brewton area who were approached by this marketing group or the insurance agent. But as I learned in January, despite our efforts to publicize this scheme and educate the public, there may still be others out there.

This concludes my statement.

Chairman PICKLE. I want to thank you for your testimony and for your initiative, having talked to the IRS people in your area. Your contacts and your interest have helped us focus on this problem.

I appreciate your testimony and your good work.

Now we will hear testimony from Mr. Warren Steele.

Mr. Steele is vice president of marketing administration of the AFLAC Insurance Co. of Columbus, Ga.

I want to say this to Mr. Steele, we want to thank AFLAC for coming here at our request to testify. I want the committee to know that AFLAC is a fine company, which has resisted competitive pressures and operated in a manner that this committee respects.

We appreciate very much that you would come and testify today about this practice that is going on.

Mr. Steele.

STATEMENT OF WARREN B. STEELE, VICE PRESIDENT, MARKETING ADMINISTRATION, AFLAC, AMERICAN FAMILY LIFE ASSURANCE CO. OF COLUMBUS, GA.

Mr. STEELE. Mr. Chairman and members of the Subcommittee on Oversight, my name is Warren Steele. I am vice president, marketing administration for AFLAC, American Family Life Assurance Co. of Columbus, Ga.

The purpose of my appearance before this subcommittee is to provide information concerning the issue of the health insurance portion of the earned income tax credit, and its use by some companies as a marketing vehicle for health insurance policies.

I ask that my full statement be included in the record as though delivered and I will summarize my statement and be glad to answer any questions any member of the subcommittee may have.

Chairman PICKLE. The statement will be included in its entirety, and that will be true of each one of the witnesses. I want that understood.

Mr. STEELE. By way of background, our company, AFLAC, was founded in 1955, and is the world's leader in supplemental health insurance. In the United States, through AFLAC and its subsidiary, we operate in all 50 States, and sell a broad range of products, including Medicare supplement, hospital indemnity, accident and disability, long-term care, cancer, hospital intensive care and life insurance.

AFLAC insures over 35 million people worldwide with international operations in Japan, Canada, United Kingdom, Taiwan, and Hong Kong. We insure over 20 percent of all Japanese households.

In the early part of 1992, AFLAC's marketing and legal departments began to receive questions from our independent sales associates concerning the earned income credit, EITC. The initial questions were simple inquiries requesting definition and understanding of the EITC and, specifically, the health insurance portion of the credit.

As 1992 progressed, we began to receive more and more inquiries from our sales associates concerning the health portion of the EITC. Through my testimony, I will use the term "health credit" to refer to the health portion of the EITC.

Our company undertook a detailed investigation of the components, the purposes of, the intent of and the requirements to be eligible for the health credit. Our independent sales associates complained that some of their competitors were offering their hospital indemnity products using the health credit as an inducement to purchase their products.

After a complete investigation, we promulgated the company's position as outlined in AFLAC's memorandum 92–346, dated August 19, 1992, which reads in part and I quote:

The IRS has taken the position that indemnity policies paying stated benefits upon the occurrence of specified events, rather than reimbursing the insured for expenses actually incurred, cannot qualify as "health insurance" for purposes of the health insurance credit. AFLAC's policies do not, in their present form, qualify as "health insurance" for these purposes. AFLAC will not support any marketing efforts in regard to this credit.

The letter was distributed to all AFLAC associates and was the focus of an article in at least one industry publication "Insurance World." The following is a description of the process undertaken by AFLAC to develop its position.

From that investigation, AFLAC felt that there was a degree of uncertainty as to this question and in May 1992, requested tax analysis from the outside tax attorneys specializing in this area of the law. Our tax attorneys contacted the Internal Revenue Service in early July 1992, with regard to its current position, which was addressed in our formal memorandum to our sales associates.

In addition to the questions of legality, AFLAC determined that the sale of our products using the health credit would not be in the best interest of the individual consumer, our payroll accounts, or AFLAC. The most important additional factor for AFLAC's position to not offer our products under the health credit is that in AFLAC's opinion many of the individuals who would qualify for the health credit would qualify for Medicaid, and all of the benefits under the AFLAC policies would be automatically assigned to the State Medicaid system.

In addition, it is AFLAC's position that everyone needs some type of major medical policy to cover the bulk of expenses incurred with any illness or accident. This basic position supported our decision not to sell our products under the health credit because we felt low-income individuals might mistakenly view our products as a substitute for major medical coverage.

After our memorandum was distributed, our associates and accounts continued to report that other companies continued to take the position that their indemnity products qualified for the health credit.

In conclusion, I would like to say that in spite of the competitive pressures we faced, AFLAC stands by a strict legal interpretation of the code and our own ethical standards. Therefore, AFLAC refuses to support the sale of our products using the earned income tax credit.

I will be happy to address any questions you may have.

[The prepared statement follows:]

TESTIMONY BY

WARREN B. STEELE
VICE PRESIDENT, MARKETING ADMINISTRATION
AFLAC (AMERICAN FAMILY LIFE ASSURANCE COMPANY OF COLUMBUS)

Mr. Chairman and members of the Subcommitte on Oversight, my name is Warren Steele. I am Vice President, Marketing Administration for AFLAC, American Family Life Assurance Company of Columbus (Georgia).

The purpose of my appearance before this Subcommittee is to provide information concerning the issue of the health insurance portion of the Earned Income Tax Credit, and its use by some companies as a marketing vehicle for health insurance policies.

By way of background, our Company, AFLAC, was founded in 1955, and is the world's leader in supplemental health insurance. In the United States, through AFLAC and its subsidiary, we operate in all 50 states, and sell a broad range of products, including medicare supplement, hospital indemnity, accident and disability, long term care, cancer, hospital intensive care and life insurance. Our products are designed, priced and marketed as supplements to major medical-type basic coverage. They are designed to fill the gaps caused by deductibles, co-payments, and non-covered medical expenses, as well as the non-medical costs of illness.

In the U.S. in 1992 we paid over $290 million in claims. Through independent research we have verified a high level of satisfaction on the part of our claimants, with over 90% stating that they would recommend our insurance. The high cost of illness, along with independent verification with our policyholders, supports the fact that supplemental health insurance can be a valuable component in many individuals' insurance portfolio.

AFLAC insures over 35 million people worldwide with international operations in Japan, Canada, United Kingdom, Taiwan, and Hong Kong. We insure over 20% of all Japanese households.

In the early part of 1992, AFLAC's Marketing and Legal Departments began to receive questions from our independent sales associates concerning the Earned Income Tax Credit (EITC). The initial questions were simple inquiries requesting definition and understanding of the EITC and, specifically, the health insurance portion of the credit. When we receive inquiries from AFLAC sales associates, our normal procedure is to address them on an individual basis, usually with return telephone calls and occasionally with a written response to the associate requesting the information. When we see that the questions are becoming frequent and the concerns being raised are widespread throughout the country, we address the questions with a formal numbered memorandum stating the Company's position. As 1992 progressed, we began to receive more and more inquiries from our sales associates concerning the health portion of the EITC. (Throughout my testimony, I will use the term "Health Credit" to refer to the health portion of the EITC.)

The Health Credit is designed to defray health insurance expenses of low-income taxpayers who pay premiums for "health insurance" that includes coverage for one or more qualifying children. Wage earners who are eligible to claim the Health Credit may be entitled to as much as $450.00 (depending on total family income). The Health Credit component of the EITC must be claimed on the individual's income tax return.

It is our understanding that certain criteria must be met in order to qualify for the Health Credit. These criteria include:

In 1992 families must have made less than $22,370.00. A graded scale is used to calculate the credit due. The maximum benefit available was $450.00. For example, an individual whose earnings are at the maximum level, $22,370.00, would only qualify for a credit of $21.50. As income decreases, the available Health Credit increases to ranges of a tax credit of $199.76 annually for earnings of $17,680.00 and up to a maximum credit of $450.00 annually on earnings of $11,440.00 In addition to the total family income requirement, the individual <u>must</u> also have a qualifying dependent child.

Our independent sales associates complained that some of AFLAC's competitors were offering their hospital indemnity products using the Health Credit as an inducement to purchase their products. In addition to strict indemnity policies, our associates sent us a policy from one company which was designed as an expense-type policy to pay actual charges but with very low caps on the benefits payable. To address the concerns of our sales associates, we investigated the issue and we reviewed this expense policy. We decided against filing and marketing such a policy for the following reasons: The policy is worded as paying "actual charges up to" $50.00 a day or "actual charges up to" $100.00 a day. It is AFLAC's opinion that any hospital stay will result in charges being well over $100.00 a day; therefore, this type of policy would almost always pay the maximum allowable amount, thereby, making this policy function much the same as an indemnity policy. By using "actual charges up to" a low maximum, it appears the product is designed to try to satisfy the requirements of the Health Credit, where in practice, it will operate as an indemnity product. After a complete investigation, we promulgated the Company's position as outlined in AFLAC's memorandum, 92-346, dated August 19, 1992, which reads _in toto_ as follows:

"MEMORANDUM TO: All Associates and Coordinators

SUBJECT: Earned Income Credit

DATE: August 19, 1992

Earned Income Credit (EIC) is a federal tax credit that is allowed for low income taxpayers. In order to claim the EIC, the taxpayer must satisfy particular requirements to be considered an "eligible individual."

The IRS has taken the position that indemnity policies paying stated benefits upon the occurrence of specified events, rather than reimbursing the insured for expenses actually incurred, cannot qualify as "health insurance" for purposes of the health insurance credit. In regard to AFLAC's products, we have obtained two opinions from different legal counsels confirming that AFLAC's policies do not, in their present form, qualify as "health insurance" for these purposes.

We understand there are other insurance companies which are selling supplemental products using this credit. If you would submit those insurance company names through your State Sales Coordinator to Tammy Briggs, Director of Sales Support, we will ask our legal department to take appropriate action. **_AFLAC will not support any marketing efforts in regard to this credit_** and we discourage our field force from soliciting any of AFLAC's products as part of any EIC program.

Should you have any questions, please contact your sales coordinator.

Warren B. Steele, FLMI
Vice President
Marketing Administration

WBS/KDB/mal"

This letter was distributed to all AFLAC associates and was the focus of an article in at least one industry publication, **Insurance World**.

The following is a description of the process undertaken by AFLAC to develop its position:

Initially, we addressed our concerns with the Company's in-house legal counsel. Their efforts focused on investigating the applicable sections of the Internal Revenue Code and any other rulings which defined the uses and the purposes of the Health Credit. Their initial findings revealed that under the IRC section 213, there were two specific revenue rulings which addressed the definition of eligible health insurance. The most recent Revenue Ruling 68-451, addressed the non-deductibility of hospital indemnity premiums under section 213 from the aspect that these type policies pay benefits based on a flat daily or weekly benefit amount with no relation to the actual expense incurred as a result of hospitalization, accident or illness. An earlier ruling, Rev. Rul. 58-602 contradicted the later ruling in that it categorized health indemnity policies as qualifying policies under section 213.

AFLAC felt that there was a degree of uncertainty as to this question and in May, 1992, requested tax analysis from outside tax attorneys specializing in this area of the law. As a result of the above ruling (Rev. Rul. 68-451) and its apparent effect on whether hospital indemnity policies qualify as "health insurance" for the purposes of the Health Credit, our tax attorneys contacted the Internal Revenue Service in early July, 1992, with regard to its current position. Consistent with Revenue Ruling 68-451, the IRS has taken a position that indemnity policies paying stated benefits upon the occurrence of specified events, rather than reimbursing the insured for expenses actually incurred, do not qualify as "health insurance" for the purposes of the Health Credit component of the EITC.

In addition to the questions of legality, AFLAC determined that the sale of our products using the Health Credit would not be in the best interest of the individual consumer, our payroll accounts, or AFLAC. The most important additional factor for AFLAC's position to not offer our products under the Health Credit is that in AFLAC's opinion many of the individuals who would qualify for the Health Credit would qualify for medicaid, and all of the benefits under the AFLAC policies would be automatically assigned to the state medicaid system. Therefore, when we looked at the income levels required to be eligible for the Health Credit, we felt it was not in the consumers best interest to pay premiums for our products when they have a high probability of not receiving benefits. In addition, it is AFLAC's position that everyone needs some type of major medical policy to cover the bulk of expenses incurred with any illness or accident. This basic position supported our decision not to sell our products under the Health Credit because we felt low income individuals might mistakenly view our products as a substitute for major medical coverage.

After reviewing all the pertinent information we had gathered, we drafted the formal memorandum dated August 19, 1992. This memorandum states in part that **AFLAC will not support any marketing efforts in regard to this credit.**

After this memorandum was distributed, our associates and accounts continued to report that other companies continued to take the position that their indemnity products qualified for the Health Credit. Our associates and accounts began to ask for additional information as to the sources of authority for our position. We received questions on the Health Credit in 1992 and 1993 from several states. Primarily these inquiries are from states noted for large numbers of low income wage earners, specifically, Mississippi, Arizona, Southern California, Texas, Oregon, Tennessee, Florida, and Pennsylvania. AFLAC has addressed the questions of Health Credit through our Compliance Department with the Mississippi Insurance Department and the Arizona Insurance Department. We asked them to review the situation, looking at the rules for the Health Credit and to formulate and announce a state-wide ruling addressing the issue. We also contacted the National Association of Health Underwriters because some companies were using this Association's literature to assist them in their program to market health indemnity policies with the Health Credit concept. All of the sources we

contacted with the issue agreed to investigate; however, we have not formally heard from any of them regarding the results of their investigation.

In conclusion, I would like to say that in spite of the competitive pressures we faced, AFLAC stands by a strict legal interpretation of the Code and our own ethical standards. Therefore, AFLAC refuses to support the sale of our products using the Earned Income Tax Credit.

Respectfully submitted,

Warren B. Steele, FLMI
Vice President
Marketing Administration

Chairman PICKLE. Thank you Mr. Steele.

I am not only glad to have your testimony, but I appreciate your testimony.

You said that AFLAC insures over 35 million people worldwide, with international operations in Japan, Canada, the United Kingdom, Taiwan, and Hong Kong. You insure over 20 percent of Japanese households.

That is a marvelous set of statistics. That ought to make you one of the biggest insurers of this kind nationwide.

Mr. STEELE. We are ranked as the world's leader in the supplemental health insurance market and in guaranteed renewable health insurance.

Chairman PICKLE. Again, I want to thank you for your testimony and for your leadership in trying to resist this kind of fraudulent practice by some companies.

Our last witness is Robert Carver, Acting Assistant Commissioner, Returns Processing IRS.

STATEMENT OF ROBERT J. CARVER, ACTING ASSISTANT COMMISSIONER, RETURNS PROCESSING, INTERNAL REVENUE SERVICE, ACCOMPANIED BY DOUGLAS CROUCH, ASSISTANT CHIEF INSPECTOR, INTERNAL SECURITY DIVISION

Mr. CARVER. I appreciate the opportunity to represent the Service before the subcommittee today, and provide some information on your review of the insurance marketing and sales techniques involving the earned income credit.

Aside from Kathy Till, from our office in Birmingham, with me is Doug Crouch, who is with our Inspection Service. Doug will be able to add some details about how we take the information that Kathy developed and do our investigative work.

We will also be able to share with you how the Federal law is not quite as effective as we need it to be to deal with this issue. We have two good ideas we are dealing with, the income tax credit and the use of insurance to provide for the well-being of children. However, there is room for abuse.

We want to support the work you have done in H.R. 22. I think that is the kind of information, the kind of help we need, and Doug will be able to describe some additional help we could use in the criminal area as well.

I would like to have Doug talk about how the investigative process works after the information developed by Kathy was presented.

Mr. CROUCH. Mr. Chairman, we in the Internal Security Division in the Internal Revenue Service have conducted a number of investigative inquiries regarding this matter.

One of the problems we often run into is the fact that the closest thing that we have as a Federal statute that we can rely upon is the impersonation statute.

In order to use that in these types of cases, we must be able to prove the two elements of the crime. The individual must represent himself or herself as a IRS official, and must commit an overt act, one which we would normally have available to us as IRS employees, such as an audit of tax returns, books and records, collecting tax returns or money. Many cases involve one element of the crime but on the other, leaving us very little opportunity protect our

name and that of the Service, except for referrals to the State insurance boards.

You mentioned that the Arkansas Insurance Board issued a cease-and-desist order. In Arkansas, we referred the matter to the State attorney general's office. A cease-and-desist order was also issued in Alabama.

There have been other instances regarding this kind of activity. In Montana recently, we saw an insurance company and their insurance agents sending out brochures to taxpayers, saying that they will be happy to supply them with information concerning the earned income tax credit and how they can apply it to health insurance, just please remit $20. What the person is paying for is information that is already out there in the public that we provide, that is available to them already.

We support your leadership and that of the subcommittee in the pursuit of H.R. 22. That would certainly give us some leverage with which to pursue these cases where individuals either endorse or sponsor these type of scams using IRS' name, its logo, or its seal.

Thank you.

Mr. CARVER. We agree with the subcommittee's efforts to end the misleading practices and help IRS maintain the integrity of the tax system.

At this time, my colleagues and I will be willing to take any questions.

Thank you.

[The prepared statement follows:]

STATEMENT OF
ROBERT J. CARVER
ACTING ASSISTANT COMMISSIONER (RETURNS PROCESSING)
INTERNAL REVENUE SERVICE

March 4, 1993

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to be here today representing the Service to present information on the Subcommittee's review of insurance marketing and sales techniques involving the earned income tax credit (EITC). The Service shares your concern about these practices, and believes that the legislation I will describe later is necessary to help end them.

With me are Douglas Crouch, the Assistant Chief Inspector (Internal Security), and Kathy Till, a revenue agent from our district office in Birmingham, Alabama. Ms. Till has a statement of her own which she will present shortly, and all of us will be available to answer any questions you may have at the conclusion of these statements.

EXAMPLE OF COMMON MISLEADING PRACTICES

An example of the kind of marketing and sales techniques brought to our attention that relate to the health insurance component of the EITC may be instructive in understanding the problem. Ms. Till will have a first-hand account in her testimony.

I should add at this point, Mr. Chairman, that to date we are aware of most of these practices occurring in a limited number of instances in only a small number of states.

In a typical case, an individual representing himself or herself as an agent of an insurance company or related business approaches an employer and implies that he or she works for or with the IRS, or that certain insurance products are "IRS approved," or represent "government-sponsored programs". Continuing the ruse, they persuade the employer to let them meet with the employees by using misleading marketing materials and (in one situation we are aware of) threats of "IRS penalties" against the employer for not complying with the "EITC laws". Employers and employees are also told that the health insurance policies are "free" because the premiums are covered by the health insurance component of the EITC, and in fact that the only way to get the basic EITC is to purchase the health insurance. The premiums paid for the health insurance may exceed the maximum EITC health insurance credit available to the taxpayer, which is $451 for tax year 1992.

The situation described above is almost never as clear cut as it may seem, because the individuals who engage in these practices are clever. Their marketing and sales pitches are blends of misstatements, deceptions, and half-truths that leave employers and employees alike thinking they have seen an official of the government make an official presentation about an official government program. Those who have seen these presentations often cannot remember, or even agree on, exactly what the individual said, whether or not he or she displayed a badge or other evidence of government employment, or what the program was all about.

Of course, all the claims relating to the IRS or other government sponsorship as stated by these individuals are totally false. The Service has not and does not engage in these types of practices.

Current federal law does not give us an effective mechanism for investigating these situations. The principal offense we pursue here, impersonation of a federal employee (18 USC 912),

has two elements: representation as an agency employee, and performing an overt act that an employee could perform, or demanding something of value. The false representation by an insurance salesperson that he/she is "affiliated" with the IRS, or sells IRS-approved products, is not by itself a violation of the impersonation statute. When the Service does not have investigative jurisdiction, we have referred these situations to authorities with investigative or regulatory responsibility, such as a state attorney general or insurance commissioner.

IRS' RESPONSE TO THESE PRACTICES

At a hearing held in May, 1992, by the Oversight and Social Security Subcommittees, the then-Assistant Secretary (Policy Management) of the Treasury Department testified about the Service's action in response to impersonations. Mr. Crouch was the Service's representative at that hearing. In sum, we have undertaken a public awareness campaign to prevent the victimization of unsuspecting taxpayers. The publicity campaign has focused on the public, tax practitioners, law enforcement agencies, and IRS employees to increase awareness of impersonation crimes. This educational campaign addresses the typical scams, proper identification of IRS officials, IRS jurisdiction, and advice for protection against this type of fraud. Efforts have included news releases resulting in newspaper articles and radio and television interviews; presentations to commonly targeted groups; to IRS employees, tax practitioners and law enforcement officials; posters, and publications and newsletters containing material about this crime. Our goal is to prevent citizens from being victimized by these practices.

Samples of news releases and related items from our Southeast Region have been provided to the Subcommittee staff.

LEGISLATION IS NEEDED TO END THESE PRACTICES

As you know, Mr. Chairman, 18 U.S.C. 709, entitled "False advertising or misuse of names to indicate federal agency", now prohibits false advertising or the misuse of names to indicate a federal agency, but the only Treasury bureau covered by this provision is the Secret Service.

In 1992, your Subcommittee introduced, with support from the Administration, section 9105 (entitled "Prohibition of Misuse of Department of Treasury Names, Symbols, etc.") of H.R. 11, the Revenue Act of 1992, which made these kinds of misrepresentation subject to a civil penalty. However, H.R. 11 was ultimately vetoed.

This year, you sponsored the same provision as Section 7434 in H.R. 22, the Federal Program Improvement Act of 1993. We appreciate your continued interest very much. However, we believe criminal penalties are also needed to effectively halt these misrepresentations and impersonations.

With that in mind, we have recently proposed to the Treasury Department that in addition to the H.R. 22 provision of a civil penalty, 18 U.S.C.709 be amended to include the IRS among the Treasury bureaus mentioned in that section as covered by criminal penalties. We urge your favorable consideration of this idea.

CONCLUSION

We agree with the Subcommittee that these misleading practices must be ended to protect the taxpayers--employers and employees--who fall victim to them. We are also concerned that the integrity of the tax administration system be maintained in the face of these deceptions. While we will continue our internal efforts, we believe legislation is needed to effectively

address our mutual concerns, and appreciate your continued support in this area.

My colleagues and I would be pleased to respond to any questions that you or the Members may have.

Attachment

COMPONENTS OF THE EITC

Congress enacted the earned income tax credit (EITC) in 1975 to --

(1) Assist low-income wage earners who were adversely affected by rising prices;

(2) Offset the impact of the social security taxes paid by low-income workers; and

(3) Encourage low-income individuals to seek employment rather than to rely on welfare benefits.

The EITC is a refundable credit enabling employees who owe no income tax to receive it if they file a tax return.

Beginning in 1979, employees could elect to receive the credit in advance payments from their employer during the year along with their regular pay. One purpose of the advance payment mechanism is to provide employees with an immediate refund of the credit rather than forcing them to postpone receiving the benefits of the credit until after year-end, when they file their individual income tax returns. A second purpose of the advance payment of the EITC is to help low-income workers meet day-to-day obligations.

The Omnibus Budget Reconciliation Act of 1990 increased the maximum amount of the basic credit and added --

(1) A higher credit for households with more than one qualifying child;

(2) A supplemental credit for a qualifying child under one year old; and

(3) A supplemental credit for health insurance premiums that cover a qualifying child.

These three credits comprise the EITC.

Chairman PICKLE. Thank you Mr. Crouch, we are glad to have your statement also.

Let me remind the subcommittee members and the witnesses, when we first became involved in this deceptive practice problem, we were initially involved because we received information from the Center on Budget and Policy Priorities.

Then we began to check around different areas of the country, and called Ms. Till, and we have been proceeding to determine how we can put a stop to these kinds of practices.

Prior to the time we had finished our investigation and prior to the time the President submitted his budget, we were in the process of trying to move forward. The President's budget will reportedly propose repeal of the health insurance component of the EITC.

I assume that if that policy is maintained, there would be no insurance component of the EITC. That may well be the best approach to take, although the committee is going to weigh the different possibilities.

There is such a confusion and frustration in trying to carry out this program. Where there are areas subject to fraud and deception, maybe the message is not being conveyed. That, of course, is something the committee and the Congress will have to decide.

But we all say that it is a terrible practice going on out there and we well may take into consideration the prospects of amending House bill 22, to provide some kind of continued enforcement in the EITC area regardless of what we do about the program itself, because there is a terrible abuse going on in the field in the area of logos and misrepresentation by the Service.

Our committee has found many instances unrelated to this type of program. It is horrendous to believe there is somebody out there representing IRS that is false.

We are going to have to tighten up on that and we recognize it. In the meanwhile, this specific program is ahead of us.

I hope subcommittee members will be prepared to ask any questions they would care to.

The Chair first would recognize, Mr. Kleczka.

Mr. KLECZKA. Mr. Chairman, I have no questions of the panel at this time.

It seems that a resolve to this problem is on the horizon by changes in EITC that are at the behest of the Chairman. This resolve is coming forth because of your efforts and the committee hearings you have had over the years, and I think you should be given full credit for the possible resolve of this health care credit crunch.

Thank you.

Chairman PICKLE. I want to ask the panel out there just as a whole; do you think that it would be advisable or acceptable, at least, if we, just as the President said, we repealed this part of the EITC?

Does anybody object to that?

That may be a desirable approach, at least certainly worthy of serious consideration on our part.

Mr. GREENSTEIN. It is an excellent approach. We don't have all the details of the administration proposal yet, but it is likely that their earned income credit changes will first take effect for tax year

1994. If that is the case, and the health insurance credit is still with us for tax year 1993, that adds to the importance of moving forward with the provisions you recommended in your bill, because we could have 1 more year where we have to face this problem.

Chairman PICKLE. We will take that under consideration and also wait to see what the rest of the recommendation will be from the President.

Mr. Houghton.

Mr. HOUGHTON. Thank you.

Mr. Chairman, I always thought the EITC was a good idea. We are a country of entrepreneurs and entrepreneurial spirit goes awash here. I would like to get into this because if it turns out some of the suggestions involve stiffer criminal laws and greater clarification and increased monitoring and studying of tax returns, then it seems maybe the basic premise is wrong. That is disappointing to me because I thought it gave an outlet to people with lower incomes.

Maybe you could comment on it on your own statement.

Mr. STEELE. I would like to make comment that we have seen in investigating the earned income tax credit that I think there is a large degree of confusion surrounding the credit and what it is to be used for. I would suggest that if it is not going to be repealed, that it is clarified both as to what it is designed to cover, what purposes and what intent was meant for it, not just for the companies and maybe the insurance companies that are offering it, but also for the general public, and possibly if it is designed for major medical insurance, a cap of $450 maximum is not sufficient to pay for major medical insurance.

If that is the intent, that needs to be clarified as well, the purpose of it.

Mr. GREENSTEIN. We need to make a very clear distinction between the basic earned income credit, which you and many Members of Congress have correctly considered to be one of the best designed policy tools we have, and the health insurance credit. The basic EIC promotes work, it promotes family, it makes work pay more than welfare.

The mistake that the Congress made over the objection of this committee—it was the other body that insisted—was to misuse the earned income credit in the 1990 legislation to add this health insurance component that had nothing to do with what the earned income credit is about, and never should have been part of the earned income credit.

The basic earned income credit is designed to supplement low wages for low-income working parents who are caring for their children. In most cases, they are not on public assistance; nor are they absent parents. They are the people we should reward.

But when the health insurance credit was added, it complicated the credit. For the first time it added a provision to the credit in which you had to know what your out-of-pocket premiums were and it opened the potential for all the problems this hearing is about.

The earned income credit is as sound an idea as it was always thought to be, but it shouldn't be loaded down with supplemental pieces that don't make sense like the health insurance credit.

If we repeal the health insurance credit, and we maintain and enhance the earned income credit, as Members of both parties have long recommended, that would be excellent policy.

Chairman PICKLE. I would say in responding to both of you, there is no intent on the part of this committee to consider changing the basic thrust of the EITC program. It is likely that it will be raised enough to compensate for the insurance malpractice that exists out there.

We have no intention to do anything except improve EITC. As long as it is working well, it is going to help low-income people. They are the people that need help. We are not going to change the basic credit, but may enlarge it.

Mr. Hancock.

Mr. HANCOCK. Mr. Chairman, I believe the testimony that we have heard today pretty well indicates what we have, even without talking about all the fraud and what exists in the insurance industry. I think it is interesting in the area of the country this is concentrated in.

I am from southwest Missouri. It seems every 10 years we have something like this hit the State of Missouri. Thirty years ago it was a different approach; it was the life insurance industry and probably something you are familiar with, similar to what happened there.

I have a question, though. If, in fact, this committee does come to the conclusion that the health insurance portion of the EITC should be repealed, which appears to be where we are going, I understand that the Secretary of Treasury was the person who actually sponsored this in the U.S. Senate. I was just curious about if, in fact, he has signed off on the possibility that maybe it was misused.

Is there somebody on the panel that could tell me if in fact Secretary Bentsen has voiced an opinion?

I understand the administration says we ought to make a change. Is that viable?

You don't know?

Mr. CARVER. I don't know, sir.

Mr. HANCOCK. Nobody on the panel knows. That is one thing I believe we ought to look at, because I have found that since I have been here that one of the most difficult things to do is to get anybody holding public office to admit that maybe they made a mistake.

It is easy for me to do it because I have made so many over my life. Once I realize, as a businessman, I have made a mistake, my employees know it and we reverse it very quickly, because it is my money, not the Government's.

Maybe we ought to pursue that. I feel confident that the administration will get on board based on the testimony that we have had here, Mr. Chairman.

I want to repeat, there are an awful lot of good, dedicated insurance operations out there. I don't know how we pass laws to protect people, frankly, from being subject to the con artists.

I don't know how you do that. Because I have seen this happen time after time after time. Actually one of the things that I wonder

about here is being able to get a businessman to say, approached on the angle that this isn't going to cost anyone anything.

I can't comprehend that very many businessmen would accept that. That is probably the reason they have come up with this little deal that he can get $2 to $5 a month. Actually, there is a little bit of problem on his part, too.

This is one of the areas that I believe we really need to look at, how to prevent these good ideas we have in the Congress from being taken advantage of.

As my friend from New York says, there are a lot of people out there that will take advantage very quickly, and that is the free market. That is the way it ought to work.

But you can't protect people against their own inability to make judgments and that is what we have to address here.

Thank you very much.

Mr. STEELE. Mr. Chairman, I would like to reiterate, we have found that the abuses are not widespread among several companies. There are very bad abuses among a handful of companies, and I think it is those bad apples that have created all the problems.

Although it is a real and serious problem, I think that as a whole, the industry is following the law. But there are a handful of companies out there that are causing the problems.

Mr. HANCOCK. They told me this would be done by the attorneys general and the insurance commissioners in the various States. Have there been complaints filed with insurance commissioners and the attorneys general?

Mr. STEELE. We contacted with two insurance companies specifically to address the issue, but I do not know what the results of their investigation were.

Mr. HANCOCK. OK, thank you.

Chairman PICKLE. Thank you, Mr. Hancock. First, I want to ask Mr. Greenstein, I heard your statement about the policy you want to base your insurance on. Is there any practical way, feasible way that we could correct the insurance component as it currently exists and to make it work?

Mr. GREENSTEIN. I am sure it could be made to work better than it does. I don't think it could be made to work well. The fundamental concept of the health insurance credit was poor policy from the outset. It provides a credit for a health insurance policy that covers a child, but the credit is really far too small to cover an individually purchased policy. It really doesn't increase access to any significant degree. In fact, it may even make it easier for employers to institute or increase copayments and tell their employees that they will get some of the money back through the health insurance credit. It opens the door to the kind of abuse that this hearing is about.

The proposals you have mentioned in your legislation would help some, but the fundamental problem is that as long as you have a basic earned income credit where you can get the money in the regular paycheck, and you also have the health insurance credit, these problems will continue. The problems will remain, even if companies no longer claim they are connected with the IRS or use IRS logos.

There was a point made by one of the other witnesses that the credit might be more effective as a way to get people to add health care coverage if it were much larger. But that would make it vastly more expensive. If we are going to spend money to increase access to health insurance, surely there are better ways to redesign the health care system than to expand the earned income credit health insurance credit. I basically think that some improvement can be made in it, but it is modest, and the only real answer is to repeal it.

Chairman PICKLE. All right. Thank you. Now, Miss Till, you stated in your testimony the experiences that you ran into in Alabama. Did most of the people at the American Employee Benefit Group that you had talked to end up buying health insurance?

Ms. TILL. Every one of those I talked to, every one at the courthouse who was contacted signed up.

Chairman PICKLE. Well, every one of them, and Mr. Gene Levengood sold it to them, where is Mr. Levengood now?

Ms. TILL. I do not know.

Chairman PICKLE. Did any of them see him again after he made the sale?

Ms. TILL. Mr. Levengood was working through an insurance agent in Flomaton, Ala., and that agent is still working, but he is with a different company. I do not know what happened to Mr. Levengood. He was not from our area.

Chairman PICKLE. Well, Mr. Carver, are you after this man, trying to locate him?

Mr. CROUCH. Yes, Mr. Chairman. The supervisory consumer specialist in the Alabama Department of Insurance has issued a cease-and-desist order against that gentleman and against the insurance company that he represented, and is taking further action from what I understand.

Chairman PICKLE. Well, the State of Arkansas has issued a cease-and-desist order and you would like to find him, and I suppose that would be true of the FBI. Is anybody really looking for this fellow? My observation is that they come in and they sell these policies, and they skip out. Is that the end of it? Is there any way to catch those fellows? Have you had any luck catching them? Have you found anybody that you put in jail because of doing that?

Mr. CROUCH. Yes. One person in the State of Virginia who actually did commit both elements of the crime of impersonation, so we could charge that individual. Unfortunately, as I indicated, most of the time they will either say they represent IRS and then they go on to sell the insurance, or they say their program is sponsored by IRS. In one case one lady said her salary was being paid by IRS, and IRS sponsored the program, but again she did not say she was an IRS employee. So again we have our hands tied with the laws available to us.

Chairman PICKLE. Well, in that respect do you have the authority to go after a lot of these people right now unless we pass and beef up H.R. 22? Do you need that legislation?

Mr. CROUCH. I need it very desperately, Mr. Chairman. I have the jurisdiction, but I have nothing to apply it to.

Chairman PICKLE. Do you have any suggestions as to specifically how we ought to beef it up in this field or any other field? If you do, you let us have that, give it to our committee immediately.

Mr. CROUCH. I will do so. I agree with the language in Mr. Miller's testimony. The only thing I would add is in the U.S. Code, title 18, section 709, if we were to add IRS and its initials, its logo, its symbols to that, that would give us another criminal statute that we could pursue.

Chairman PICKLE. I was going to ask Ms. Till another question, but I think we may well ask for additional—for criminal penalties in addition to the civil penalties which H.R. 22 has, and I think we should enlarge it and probably should ask for that, and that would be certainly agreeable to you?

Mr. CROUCH. Yes, it certainly would. We have been seeking that for some time. I spoke before your subcommittee last year on deceptive practices, where we were talking about some of the impersonation cases that we had in the telemarketing area and how we were able to pursue those.

Chairman PICKLE. I should make it plain that it is our intent at this point, if we can, to add to the criminal penalties to House bill 22's civil penalty.

Ms. Till, in reference to the people you talked to in your area, did any of the people who bought this health insurance policy have other health insurance?

Ms. TILL. Yes, sir. In fact, most of them did.

Chairman PICKLE. Could they have used the health insurance credit for other insurance just as well?

Ms. TILL. Yes, sir. Many of them had health insurance through their employers, those at the city did, and that health insurance coverage did qualify for the credit. Some of the people I talked to, their children were covered by Medicaid, and their children had 100 percent coverage at that time. They still bought the insurance.

Chairman PICKLE. Well, did any of the employees actually spend more than their health insurance credit to buy insurance?

Ms. TILL. Most of them, after I talked to them, canceled their insurance, and the company in Alabama sent a representative down and refunded their premiums in full. The only person that I talked to at the city where I actually reviewed her earned income credit form did pay more in premiums than she qualified for in credit.

Chairman PICKLE. I see. All right. Mr. Carver or Mr. Crouch, either one, the testimony we have heard today primarily centers in a belt from Florida, Alabama, Georgia, Arkansas, and Texas. I submit to you that all the crooks are not just in the Southern States.

Mr. Houghton wanted to know from me why don't they find those people in New York, just in the South. I say to you they are all over the United States. Obviously that has to be the case.

Now, my question is this, here is this case in Alabama, and we have one or two in Arkansas and Georgia where this is happening. You know it is happening. Are you alerting every IRS office in the United States that this is going on? Are they well aware of what is happening or have they been advised to watch out and what to do to try to catch these fellows?

Mr. CARVER. Yes, sir, we have. There is a package we provided to the subcommittee staff that showed some of the public affairs

bulletins we have put out. We sent information out to employers as well.

Chairman PICKLE. More and more practices of deception and fraud have been practiced by people who were actually being bold enough now not only to put a logo in an advertisement, but they actually put on a uniform, they are actually wearing badges. I was advised of one case recently where one man was told that he just won a lottery, and he would have to pay up $700 or $1,000 in taxes, and he forked up the money, and when he came back the same day they said, no, that wasn't enough, you have got to go back. He had to go back to his bank a second time to borrow money to pay taxes on the lottery winnings. I think the bank was about 200 miles away. He had to drive up there and back to get extra money. Then when he forked it up, he found out there wasn't any lottery. He was just being fooled by someone representing the IRS.

Now, of course, that is reprehensible, and I don't know how you can stop that, but I am just saying every office in the United States ought to know about this practice and they ought to have full information so they are ready and somebody will catch some of these fellows. That is one way to go about it, I guess. Now, I don't know that—do you have questions? I want to ask Mr.—

Mr. HOUGHTON. May I ask a question, Mr. Chairman? Things like this are going to happen. You know, we are human beings and it has happened from time immemorial. When they do go on you try to stamp them out and do the best you possibly can. I wonder, whether, though, the Government, the IRS is really using the private companies enough because it seems to me the story that Mr. Steele told was a pretty effective story. He not only did the right thing, but made great character for his company. I wonder whether working with companies like Mr. Steele's to try to spread the word rather than just doing it by the Federal Government.

Mr. STEELE. One thing I will comment on, which is interesting, and I honestly was surprised at how widespread my memorandum from our company stating our position got beyond the hands of just our sales associates. We received calls from businesses like you are referring to primarily throughout the South, but also throughout the United States, and as I said in my testimony, our memorandum even made it to a trade journal, a publication that is circulated in Louisiana and Mississippi. I was encouraged to hear that the Chairman said that Congress will consider extending the criminal statutes because what I will do when I go back is that I plan to put out another memorandum to our field force, our associates, explaining to them the fact that the criminal statutes are under consideration to be extended, and I do think that the same network that gets our information out to people just beyond our associates will work again, and hopefully that might have some impact extending beyond our company.

Mr. CARVER. Mr. Chairman, I would just like to add that the Service will communicate information on today's session to interested parties internally. We are proud of our own employee here, but we will provide this to the field because this is the ongoing work.

[The following was subsequently received:]

MAR 1 1 1993

Regional Inspectors
Director, Office of Investigations I:IS:I

Waylon C. Crank

Assistant Chief Inspector (Internal Security) I:IS

Deceptive Practices Related To Claiming Affiliation With IRS

On March 4, 1993, the House Subcommitte on Oversight of the Committee on Ways and Means, held a hearing which addressed deceptive practices in marketing health insurance policies based on the supplemental health insurance component of the earned income tax credit. Attached is a statement on this subject submitted at the hearing by the Subcommittee staff.

I testified at this hearing about the role of Internal Security in investigating incidents in which health insurance salesmen represented themselves as being affiliated with the IRS or stated that they were selling policies that were sponsored by the IRS. I also discussed the need for new legislation, specifically the civil sanctions proposed in H.R. 22, plus criminal provisions by adding IRS to the protection afforded by 18 U.S.C. 709 concerning agency names and logos.

Please alert Inspectors to the existence of these schemes. In addition, should such incidents come to your attention and it is determined that investigation by Internal Security is not appropriate, please assure that the matter is referred to the appropriate investigative or regulatory authority. Among those agencies which might have jurisdiction are the Postal Inspection Service, the Federal Trade Commission, state insurance commissioners, and state attorneys general. Furthermore, such incidents should be coordinated with your local IRS District or Regional Office so that public affairs and other appropriate actions can be considered.

I appreciate your cooperation in this matter.

Attachment

Chairman PICKLE. Mr. Steele, you said this is going on with other companies, but that some companies, like yours, refused to do this. Can you tell me the names of the companies that are actually targeting low-income taxpayers for sales of these kind of health insurance policies in a fraudulent way?

Mr. STEELE. I would prefer not to mention the names of the other companies, but, of course, if you direct me to do so, I would feel compelled to tell you.

Chairman PICKLE. Well, I direct you to do so. I would like to know that right this minute.

Mr. STEELE. Yes, sir. What we found, and these were companies that we actually received from our sales associates materials that were marketing the products which looked to be illegally using the health credit—Colonial Life & Accident out of South Carolina.

Chairman PICKLE. I want to hear them. Say that again.

Mr. STEELE. Colonial Life & Accident out of South Carolina; Commonwealth National out of Mississippi; Kanahwa Life, American Heritage, and American Fidelity. Those are the companies. In addition to that there is some independent agencies, but those were the insurance companies that we identified that were marketing the product.

Chairman PICKLE. All of those companies are in generally the South, Southwest area, are they?

Mr. STEELE. Yes, sir.

Chairman PICKLE. Do you know whether that same type of practice is going on in California or in Chicago or New York?

Mr. STEELE. We did find—we received calls and complaints from throughout the United States, but it was primarily in the areas where you have a lot of low income workers, in Southern California, in Texas, Louisiana, Mississippi, Tennessee, and Florida. So it did spread beyond just the Southern United States.

Chairman PICKLE. Well, Mr. Steele, I understand that the policies were sold to EITC-eligible people to provide cancer insurance coverage in some cases. Furthermore, I understand that many of the people that were sold policies were also Medicaid beneficiaries. Is this true?

Mr. STEELE. Yes, sir, it is our feeling, and I don't have any specific examples, but it is our feeling that the income level of the people that are being targeted to sell the products using the health credit are also eligible in most cases for Medicaid if they were to have some sort of catastrophic illness.

Chairman PICKLE. Well, do they have any insurance policies for children?

Mr. STEELE. Did they have insurance policies?

Chairman PICKLE. Yes. Are those kind of policies available? Were they actually being sold insurance for cancer?

Mr. STEELE. The policies that are being marketed have what is called family coverage, which would provide benefits for children if they were able to collect. Of course, as you know, if someone goes into the Medicaid system or the State, all benefits on any private insurance is assigned to the State, so that was our concern is that a lot of these individuals who would be paying premiums for the supplemental coverage, if they were to have an illness or their chil-

dren were to have a severe illness that the benefits that they could receive would be assigned to the State.

Chairman PICKLE. Well, Mr. Herger, did you have any questions?

Mr. HERGER. No.

Chairman PICKLE. Well, let me say this to the panel and to my staff as well: We know that a lot of misrepresentation is going on out there, and we are trying to ferret it out and try to put some muscle into our agencies to do something about it. It is frustrating and maddening when we know this is going on.

Mr. Houghton says in the real world there is somebody out there who is trying to cheat the public if they can, and when you have a program like EITC that is good in purpose, but if you make it complicated, it is awfully hard to administer because most of the beneficiaries are in the lower income bracket. They need it the most, and they would know less about how to make a proper inquiry or to make a proper purchase. That's just the fact of life. The abuses are so large that we may have to just say we have got to do away with the health insurance component.

We may beef up the basic credit and let that be handled in that way, but in either event we hope to beef up your authority to fight these deceptive practices so that we can have criminal action taken against these perpetrators of fraud, and maybe go after them on that basis as well. And we ought to also consider other ways that we can combat the practice of using logos and other deceptive devices or advertisements. Meanwhile, this testimony ought to be put on the record today, and I appreciate you doing it.

I, for one, recognize that it is not a matter that is going to settle the balance of the budget in the long run, but it is terribly important because wherever we know fraud is going on, and we could do something about it, we ought to do it, so if you have got any other suggestions about this program, we would like to have them because we are going to try to move as quickly as we can on House bill 22, so we appreciate your suggestions.

If anybody else has any other questions—

Mr. STEELE. Mr. Chairman, I just have one more comment. I would like to reiterate again that we are a supplemental health insurer, and we do feel that supplemental health products do play a valuable role in individuals' overall health care. We do cover the gaps of copayments and deductibles and one of the products we offer is cancer insurance which it was our primary product before we expanded our base, so we do feel that supplemental products are valuable if sold correctly.

Chairman PICKLE. Well, I was going to ask you and I should have asked you if you feel that supplemental policies would be of benefit to low-income taxpayers without any other health insurance, and, obviously, you do. I want to make that clear, too.

Mr. STEELE. Low-income taxpayers with no other type of health insurance, we do not feel that it is in their best interest to purchase a supplemental product first. We have the company position that we think everyone should have some sort of major medical coverage because our products are not designed to cover all of the costs or the bulk of the costs. They are designed to cover the gaps created by copayments and deductibles.

Chairman PICKLE. All right. Do we have any other questions?

Mr. GREENSTEIN. Mr. Chairman, could I just briefly say what an outstanding job I think your subcommittee and staff did in conducting this investigation, and as an organization that has worked in this field, we are very grateful that you have put all this work into this issue.

Chairman PICKLE. I thank you for your original tip and all of you for your testimony. If there are no other statements or questions, then the subcommittee will be adjourned.

[Whereupon, at 2:35 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

COLONIAL
LIFE & ACCIDENT INSURANCE COMPANY

Robert E. Staton
Senior Vice President,
General Counsel &
Corporate Secretary

May 20, 1993

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Ways and Means Committee
United States House of Representatives
Washington DC 20515

Dear Chairman Pickle:

This letter is supplementary to our previous letter to you dated March 9, 1993, concerning your Subcommittee's investigation of the earned income credit. In that letter, we went on record with your Subcommittee to correct some information that had been provided to the Subcommittee concerning our Company. That information was to the effect that our Company had a program to market our products using the health insurance portion of the earned income credit. As we advised you then, we have no such program and, in fact, have advised our sales force that our products do not qualify for the credit. Another copy of our March 9, 1993, letter is enclosed.

Since the date of our earlier letter, your Subcommittee has issued its report to the Committee on Ways and Means. In the report, the statement is made that there was hearing testimony that our Company "marketed indemnity-type policies to EITC-eligible taxpayers." The report does mention, in a parenthetical statement, that Colonial advised its sales force on December 16, 1992, that its policies did not qualify for the health insurance credit. The report goes on in another paragraph, however, to state, incorrectly, that our Company is an example of a company that "may have attempted to circumvent the prohibition against indemnity-type policies by changing policy language to avoid the appearance of an indemnity-type policy." Our Company has taken no such action.

In the three months since we were first contacted by the Subcommittee staff concerning the earned income credit, we have cooperated with your Subcommittee to provide the information requested from us and to advise the Subcommittee of the facts concerning our Company's position on the earned income credit. During this period, we were continually told that another insurance company had supplied the staff with

1200 Colonial Life Boulevard
Post Office Box 1365 • Columbia, South Carolina 29202 • (803) 798-7000 • Facsimile (803) 731-2618

the information that our Company was selling its products, and had designed a product specifically for use, with the health insurance credit.

After the Subcommittee's March 4 hearing, we learned that Warren Steele of AFLAC had testified before the Subcommittee and stated that our Company was one that was marketing products "which looked to be illegally using the Health Credit." We contacted Mr. Steele by letter and requested that he advise us of the basis for this statement. In response, we received the enclosed letter from AFLAC's legal counsel, dated March 29, 1993. As you can clearly see, the documents that supposedly formed the basis for Mr. Steele's statements do not even mention Colonial products and the earned income credit. They consist of an informational brochure that we prepared for our employer-customers to inform them of their obligations under the credit and a sample schedule page from a Colonial policy. To clarify, the schedule page was not sent to the employer-customers with the other information. Obviously, AFLAC had no factual basis for the statements it made concerning our Company. However, the incorrect information has been reported by your Subcommittee, to the detriment of our Company's reputation.

This injustice is further compounded by the glowing statements made about AFLAC's notifying its sales force that its products do not qualify for the credit. Even though our Company took the same action, the report of that fact is buried in a parenthetical statement, while AFLAC has two paragraphs describing its action. Those paragraphs read as though they were written by AFLAC itself.

We have been advised by your staff that our only recourse in this matter is to provide information to be included in the record of the hearing, a document separately printed from the Subcommittee's report of its findings. Even though this is not a completely adequate way to try to correct the misinformation that has been provided about our Company, we feel we must take whatever steps are available to us. Therefore, we respectfully request that a copy of this letter and the attachments be included in the record of the March 4 hearing.

Thank you for your cooperation.

Sincerely,

Robert E. Staton

Robert E. Staton

/rbp
Attachments
cc: The Honorable Amo Houghton

COLONIAL
LIFE & ACCIDENT INSURANCE COMPANY

Robert E. Staton
Senior Vice President,
General Counsel &
Corporate Secretary

March 9, 1993

The Honorable J. J. Pickle
United States House of Representatives
Washington, DC 20515

Dear Chairman Pickle:

It has come to our attention that, at a hearing of your Subcommittee held on March 4, 1993, concerning the earned income credit, testimony was given by a representative of another insurance company to the effect that our Company markets a product using the health insurance portion of the earned income credit. This testimony is incorrect.

As we advised Mssrs. Fox and Miller of the staff of your Subcommittee on February 19, 1993, our Company has no such marketing program. Furthermore, Colonial has informed its sales force that our accident and health products do not qualify for the health insurance credit. Please see the enclosed excerpt from a communication dated December 16, 1992.

We commend the Subcommittee for its efforts to ensure proper application of the earned income credit and appreciate this opportunity to assist the Subcommittee with its review. Please contact us if you have any further questions.

We respectfully request that this statement be made a part of the March 4 hearing record to document Colonial's actual position on this matter.

Sincerely,

Robert E. Staton

Robert E. Staton

cc: The Honorable Amo Houghton

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COLONIAL NEWS FOR THE SALES PROFESSIONAL

IMPACT

VOLUME 6, NUMBER 48

DECEMBER 16,1992

INDUSTRY NOTES

Earned Income Credit Remains Intact

On November 14, 1992, President Bush vetoed HR 11, the Urban Improvement tax bill. Included in HR 11 was a provision that would have repealed the health insurance credit provision of the earned income credit. However, with this veto by President Bush, the earned income credit, with its three categories (basic credit, health insurance credit, and supplemental young child credit), remains intact.

As Colonial has previously communicated to you, we have developed some support material for employers interested in communicating the earned income credit to their employees. Remember, however, that Colonial's accident and health products do not qualify for the health insurance credit.

For additional information, please contact any of the National Market Development specialists.

AFLAC

Jefferson W. Willis
Second Vice President
Senior Associate Counsel
Legal Division

March 29, 1993

Mr. Robert E. Staton
Senior Vice President
General Counsel and Corporate Secretary
Colonial Life & Accident Insurance Company
P. O. Box 1365
Columbia, South Carolina 29202

RE: Committee on Ways and Means, Subcommittee on Oversight, Hearing on Abusive Insurance Sales and Marketing Techniques Involving the Earned Income Tax Credit, Held on March 4, 1993

Dear Mr. Staton:

Warren Steele has referred your letter of March 10, 1993 concerning his testimony before the Subcommittee on Oversight to my attention for response.

As a brief history, the Subcommittee on Oversight requested that we provide testimony concerning the position taken by AFLAC not to market hospital indemnity and other supplemental insurance products through the use of the health insurance portion of the Earned Income Credit (hereinafter referred to as "Health Credit"). In the early part of 1992 AFLAC undertook a detailed investigation of the components, the purposes of, the intent of and the requirements to be eligible for the Health Credit. After a complete investigation, we promulgated our position by memorandum to our sales associates which states, in part, as follows:

> "The IRS has taken the position that indemnity policies paying stated benefits upon the occurrence of specified events, rather than reimbursing the insured for expenses actually incurred, cannot qualify as 'health insurance' for purposes of the Health Insurance Credit. AFLAC's policies do not, in their present form, qualify as 'health insurance' for these purposes. AFLAC will not support any marketing efforts in regard to this credit." Memorandum 92-346, dated August 19, 1992 from Warren B. Steele, Vice President, Marketing Administration.

American Family Life Assurance Company of Columbus (AFLAC)
Worldwide Headquarters 1932 Wynnton Road • Columbus, GA 31999-0001
706/323-3431 • Dir No 706/596-3878 • FAX 706/596-3577

Mr. Robert E. Staton
March 29, 1993
Page 2

In addition to the questions of legality, AFLAC determined that the sale of supplemental hospital confinement policies, whether of the indemnity or expense type, through the use of the Health Credit would not be in the best interest of the individual consumer, payroll accounts, or AFLAC. It is our position that everyone needs some type of major medical policy to cover the bulk of expenses incurred with any illness or accident. This basic position supported our decision not to market our policies in conjunction with the Health Credit because we felt low-income individuals might mistakenly view our products as a substitute for major medical coverage when sold with the use of the Health Credit. We were also concerned that many of the individuals who would be eligible for the Health Credit would, in many instances, qualify for Medicaid and that any benefits that might be due under the supplemental policies would be automatically assigned by operation of law to the state Medicaid system.

Near the end of the hearing and after Mr. Steele had given his prepared testimony, he was again questioned by Chairman Pickle and asked to provide the names of other companies marketing hospital indemnity and supplemental health policies in conjunction with the Health Credit and advance basic Earned Income Credit. Mr. Steele responded to Chairman Pickle's question that "[he] would prefer not to mention the names of the other companies ..." but would do so if directed. Whereupon Chairman Pickle said "I direct you to do so. I would like to know that right this minute." Accordingly, Mr. Steele answered:

> "Yes sir. What we found were companies, ones we actually received materials on from our sales associates, that were marketing the products which looked to be illegally using the Health Credit - Colonial Life & Accident out of South Carolina, Commonwealth National out of Mississippi, Kanahawa Life, American Heritage and American Fidelity. Those are the companies. In addition to that there are some independent agencies, but those were the insurance companies that we identified that were marketing the product."

With respect to Colonial Life & Accident Insurance Company and the literature referred to by Mr. Steele, I enclose the following materials.

- Memorandum from Colonial Life & Accident Insurance Company to Employee Benefits Managers dated June 30, 1992 which advises employers of the Earned Income Credit and their obligations thereunder: "As an employer, you must notify certain employees of the availability of the Earned Income Credit. You are also obligated to advance the Earned Income Credit if an employee so requests. If you need assistance with your obligations regarding the Earned

Mr. Robert E. Staton
March 29, 1993
Page 3

Income Credit, contact your local Colonial representative or complete and return the enclosed business reply card. You may also call our home office at 1-800-845-7330 and ask for National Market Development."

- Newsletter providing information for employers concerning the Earned Income Credit. It informs the employer, among other things, that: 1) "... you have certain obligations regarding this credit. This newsletter is designed to help you understand more about the Earned Income Credit and your responsibilities." 2) "There are three separate credits that comprise the Earned Income Credit. They are: (a) the basic credit; (b) the health insurance credit; and (c) the supplemental young child credit for a child born during the year." 3) "The health insurance credit is available to employees who pay health insurance premiums that include coverage for one or more qualifying children. Employees who are eligible to claim the health insurance credit may be entitled to $451 in addition to the basic credit." 4) "Employers must notify all employees from whom income tax was not withheld of the availability of the Earned Income Credit. Colonial recommends employers notify every employee, regardless of whether or not income tax was withheld."

  The newsletter gives an example illustrating the advantages of the advance Earned Income Credit stating that the illustrated "... employee is also eligible for a year-end tax refund for the health insurance credit [for the employee's $35 monthly health insurance premium deduction] ...."

  "The information in this publication is not intended to constitute legal advice ...."

There was also a reference by the staff investigator of the Subcommittee on Oversight to a Colonial policy in his prepared testimony:

> "It also appears that some insurance companies may be attempting to circumvent the prohibition against indemnity-type policies, by changing policy language to avoid the appearance of an indemnity policy. Colonial Life and Accident Insurance Company marketed a policy that paid actual charges incurred 'up to' a specified ceiling (e.g., $50/day for hospital confinement). (Attachment 17) Because

Mr. Robert E. Staton
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Page 4

it does not guarantee payment of a 'specified amount', such a policy may not fall within the strict definition of an indemnity policy. Nonetheless, when the ceiling is substantially below actual charges (e.g. $50 for each day of hospitalization), the policy is, for all practical purposes, indistinguishable from an indemnity-type policy." Staff Investigator, Subcommittee on Oversight.

I trust that this explains Mr. Steele's involvement in testifying at the hearing held by the Subcommittee on Oversight on abusive insurance sales and marketing techniques involving the Earned Income Credit. If you have any other questions or would like to discuss this further, please feel free to call.

Sincerely,

Jeff Willis

Jefferson W. Willis

JWW:wch

Enclosures

cc: Mr. Joey M. Loudermilk
Mr. Warren Steele

COLONIAL
LIFE & ACCIDENT INSURANCE COMPANY

TO: Employee Benefits Managers

FROM: Colonial Life & Accident Insurance Company

RE: Earned Income Credit

DATE: June 30, 1992

As part of our ongoing service to clients, Colonial Life & Accident Insurance Company is committed to helping you stay informed of important changes that may affect you and your employees.

Recent changes in the Earned Income Credit have made this credit more attractive to employees. This tax provision affects lower income employees and brings with it certain obligations on behalf of employers.

The Earned Income Credit is a special credit for workers whose income or family income in 1992 is less than $22,370 and who have a qualifying child or children who live with them. Employees must meet specific criteria in order to qualify for the tax credit, which in some cases can be advanced through their paychecks. As an employer, you must notify certain employees of the availability of the Earned Income Credit. You are also obligated to advance the Earned Income Credit if an employee so requests.

If you need assistance with your obligations regarding the Earned Income Credit, contact your local Colonial representative or complete and return the enclosed business reply card. You may also call our home office at 1-800-845-7330 and ask for National Market Development.

We look forward to serving you.

enc.

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Post Office Box 1365 • Columbia, South Carolina 29202 • (803) 798-7000 • Facsimile (803) 731-2618

Colonial's Commitment To You

As part of our ongoing service to clients, Colonial Life & Accident Insurance Company is committed to helping you stay informed of important issues that may affect you and your employees. One of these issues is the Earned Income Credit.

The Omnibus Budget Reconciliation Act of 1990 brought about several changes to the income tax system. One of the provisions, often overlooked, is the Earned Income Credit (EIC).

As an employer, you have certain obligations regarding this credit. This newsletter is designed to help you understand more about the Earned Income Credit and your responsibilities.

The Earned Income Credit

The Earned Income Credit is a special credit for lower income workers with a qualifying child or children who live with them. The credit reduces the amount of tax an individual owes, if any, and is intended to offset some of the increases in living expenses and Social Security taxes.

Eligibility Requirements

To qualify for the Earned Income Credit, individuals must meet all of the following criteria. They must (a) work; (b) have an earned income and an adjusted gross income of less than $22,370 in 1992. (This means the combined family income must be less than $22,370); (c) have a qualifying child living with them in their home in the United States; and (d) file a joint tax return, if married.

Three Separate Credits

There are three separate credits that comprise the Earned Income Credit. They are: (a) the basic credit; (b) the health insurance credit; and (c) the supplemental young child credit for a child born during the year. Employees may be entitled to all three credits, but must be entitled to the basic credit in order to be eligible for the other two.

The Basic Credit

The basic credit is determined by the employee's income and how many qualifying children live with the employee. (For a definition of qualifying children, see IRS Publication 596 or Notice 797.) If employees have one qualifying child, they may be entitled to a credit of up to $1,324. If they have two or more qualifying children, they may be entitled to a credit of up to $1,384.

The Health Insurance Credit

The health insurance credit is available to employees who pay health insurance premiums that include coverage for one or more qualifying children. Employees who are eligible to claim the health insurance credit may be entitled to $451 in addition to the basic credit.

The Supplemental Young Child Credit

The supplemental young child credit is available to employees who have a child under the age of 1 by December 31 of the tax year. This credit may entitle an individual to as much as $376 in addition to the basic credit and the health insurance credit.

Qualifications For The Maximum Credit

Employees who earn between $7,520 and $11,840 a year during 1992 qualify to receive the maximum tax credit.

Receiving The Earned Income Credit

Employees can receive the tax credit in one of two ways: by taking the credit on their tax returns or, if qualified, through advance payments in their paychecks during the year.

Of the three tax credits that comprise the Earned Income Credit, only the basic credit can be advanced to qualified individuals. The health insurance credit and the supplemental young child credit cannot be advanced to employees.

The Employer's Obligations

Employers must notify all employees from whom income tax was not withheld of the availability of the Earned Income Credit. Colonial recommends employers notify every employee, regardless of whether or not income tax was withheld.

To notify employees, employers must provide them with one of the following: (a) an IRS Form W-2, which has the required statement on the back of Copy C; (b) a substitute W-2 with the same statement; (c) Notice 797 - Possible Federal Tax Refund Due to the Earned Income Credit; or (d) a written statement with the same wording as Notice 797.

The employer is also obligated, if presented with a Form W-5 by an employee, to advance the basic Earned Income Credit in the employee's pay. Subsequent pay stubs should indicate Advance Earned Income Credit (AEIC) and the amount. The employer can determine the amount of the advanced credit for each employee from Circular E (IRS

Employers are subject to a penalty of 100 percent of the basic Earned Income Credit if they refuse to provide the advancement to a requesting employee.

The Advance Basic Earned Income Credit

The Advance Basic Earned Income Credit is distributed from income taxes, Social Security taxes, and Medicare taxes withheld by the employer.

Employers should indicate the total amount of Advance Earned Income Credit payment on Line 15 of their quarterly federal tax return (such as Form 941). The amount of the advance credit must be reported on the employee's Form W-2 in box 8.

Making Advance Payments

Advance payments can begin at any time during the year. Advancements are made on a calendar year basis. Employees are entitled to receive their tax advances once they submit a W-5 to their employers.

Employees must submit a new W-5 every year to continue receiving the tax credit or to stop receiving the advance payment. Employees must also submit a new W-5 any time there's a change in status that affects their eligibility for the credit.

Salary Examples

The following two examples illustrate how the Advance Earned Income Credit could affect an employee's paycheck.

Example 1

Employee status: Single with one dependent (age 4)
Tax status: Single filing head of household
Gross annual salary: $17,160*

	Without Advance Earned Income Credit	With Advance Earned Income Credit
Gross Monthly Pay	$1,430.00	$1,430.00
Taxes	-332.02	-332.02
[redacted]		
Spendable Monthly Income	$1,097.98	$1,152.55

Example 2

Employee Status: Married with two dependents (ages 6 months and 6)
Tax status: Married filing jointly
Gross annual salary: $15,000*

	Without Advance Earned Income Credit	With Advance Earned Income Credit
Gross Monthly Pay	$1250.00	$1250.00
Taxes	-197.95	-197.95
Health Ins. Premium (dependent)	-35.00	-35.00
[redacted]		
Spendable Monthly Income	$1017.05	$1094.24**

***Though only the basic credit of the Earned Income Credit can be advanced in an employee's paycheck, this employee is also eligible for a year-end tax refund for the health insurance credit, the supplemental young child credit for a child under age 1, and an extra basic credit for an additional child.*

**Salary illustrations are based on the gross annual salary of a South Carolina employee and 1992 tax tables.*

To Find Out More

For a free copy of IRS Publication 596 - Earned Income Credit or IRS 1325 (Employer Requirements for EIC), call the IRS at 1-800-829-3676. Colonial Life & Accident Insurance Company can also give you additional information on this subject. Call us toll-free at 1-800-845-7330 and ask for National Market Development.

The information in this publication is not intended to constitute legal advice, but is provided for your review with attorneys or other professional advisors.

Figures used in this publication reflect 1992 data.

COLONIAL

ATTACHMENT 17

COLONIAL LIFE & ACCIDENT INSURANCE COMPANY

BILLING CONTROL NUMBER E-915291-0 POLICY NUMBER 20013 501 0

****
* THIS POLICY PROVIDES THOSE BENEFITS SHOWN IN THE POLICY *
* SCHEDULE BELOW. THESE BENEFITS ARE INDICATED WITH A *
* DOLLAR AMOUNT OPPOSITE THE BENEFIT DESCRIPTION. *
****

NAMED INSURED	JOHN DOE
ADDRESS	123 ANY STREET ANY CITY, ANY STATE 00000

EFFECTIVE DATE OF COVERAGE 9-1-92

TOTAL MONTHLY PREMIUM $9.35

COVERAGE: INSURED

POLICY SCHEDULE

OUTPATIENT SURGERY BENEFIT	THE AMOUNT CHARGED UP TO $200 PER OUTPATIENT SURGERY
HOSPITAL ADMISSION BENEFIT	THE AMOUNT CHARGED UP TO $200 PER ADMISSION
HOSPITAL CONFINEMENT BENEFIT	THE AMOUNT CHARGED UP TO $50/DAY UP TO 365 DAYS
HOSPITAL INTENSIVE CARE UNIT CONFINEMENT BENEFIT	THE AMOUNT CHARGED UP TO $100/DAY UP TO 365 DAYS
WAIVER OF PREMIUM	AVAILABLE FOR NAMED INSURED ONLY

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FORTNEY H. (PETE) STARK
9TH DISTRICT, CALIFORNIA

COMMITTEES
WAYS AND MEANS
DISTRICT OF COLUMBIA
SELECT NARCOTICS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

Pete Stark

STATEMENT OF CONGRESSMAN PETE STARK
SUBMITTED TO
THE SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
March 4, 1993

Mr. Chairman, Members of the Committee:

I commend you for holding this hearing today.

At every community forum I hold in my district, I hear the call to clean-up the mess we refer to as a health insurance system. Americans desire health insurance for themselves and their families for a simple reason. Americans want security for themselves and their families. Without some protection, a bout of illness can disrupt and possibly bankrupt any family.

We all support increasing the ability of low and moderate income persons to secure health insurance. But when these efforts do not indeed provide security, we have failed in our efforts.

If we were to assess whether the health care component of the earned income tax credit has provided security to those of modest means, we would have to answer "no." Through this hearing today, we will hear that the confidence some consumers may have thought they enjoyed when securing a policy through the earned income tax credit was in fact false.

While the intention of adding the health component of the earned income tax credit was commendable, we must look to other means to provide the security that Americans of all income groups so eagerly desire. A tax credit scheme that provides no more than a month or two of coverage is not the way to go.

Mr. Chairman, you and I have worked over the years to guarantee that all Americans have access to health care, and have the protection from the tremendous costs that may mount as a result. It is time for Congress to stop with the gimmickry and truly ensure that health insurance coverage is made available to all our constituents.

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